

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the County of Orange:

A. Reporting Entity

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors, which, as the governing body, is responsible for the legislative and executive control of the County. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, waste management, airport management, and general financial and administrative support.

As required by accounting principles generally accepted in the United States of America (GAAP), these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. Therefore, data from these component units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," to determine whether the following component units should be reported as blended or discretely presented component units:

Blended Component Units

Orange County Flood Control District The governing body of the District is the County's governing body. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and appoints the management. The District is reported in governmental fund types.

Orange County Development Agency The governing body of the Agency is the County's governing body. Among its duties, it approves the Agency's budget and appoints the management. The Agency is reported in governmental fund types. Separate financial statements are issued for this component unit. Copies of the financial statements can be obtained from Housing & Community Development Accounting.

Orange County Housing Authority The governing body of the Authority is the County's governing body. Among its duties, it approves the Authority's budget, determines the rates and charges for the use of facilities and appoints the management. The Authority is reported in governmental fund types.

Orange County Financing Authority The Authority is a joint powers authority of the Orange County Development Agency and the Orange County Housing Authority, formed for the purpose of assisting the Orange County Development Agency in financing and refinancing its redevelopment projects and activities. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A. Reporting Entity (Cont'd)

Blended Component Units (Cont'd)

Orange County Civic Center Authority The Authority is a joint powers authority of the County and the City of Santa Ana. It has a five member governing body with two members appointed by each of the County and the City of Santa Ana and the fifth member appointed by the other four members. The County has control over operations and responsibility for fiscal management of the Authority and the Authority is fiscally dependent upon the County. In the opinion of County management, the Authority is treated as a blended component unit of the County, rather than as a joint venture because it would be misleading to exclude the Orange County Civic Center Authority because of its relationship with the County. The Authority's operations included a final debt service payment of \$330 for the year ended June 30, 2002. The Authority will have no more activity in subsequent years. Separate financial statements are also issued for this component unit. Copies of the financial statements can be obtained from Public Facilities & Resources Department (PFRD) Accounting. The Authority is reported in governmental fund types.

Orange County Special Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to assist in the refinancing of the County's Teeter Plan program, and in the financing of public capital improvements and other projects. The governing body of the Authority is the County's governing body. Separate financial statements are issued for this component unit. Copies of the financial statements can be obtained from the County Executive Office (CEO)/Public Finance Accounting. The Authority is reported in governmental fund types.

Orange County Public Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to provide financial assistance to the County by financing the acquisition, construction, and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

Orange County Public Facilities Corporation The Corporation has its own five member governing body appointed by the County's governing body, and provides services entirely to the primary government (the County) through the purchase, construction or leasing of land and/or facilities which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts ("special districts") is the County Board of Supervisors. The Board of Supervisors, as the governing body, approves the special districts' budgets, and approves parcel fees, special assessments and special taxes. The special districts are reported in governmental fund types.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A. Reporting Entity (Cont'd)

Discretely Presented Component Unit

Orange County Children and Families Commission The Commission is administered by a governing board of nine members, who are appointed by the County Board of Supervisors. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County, funded by additional State taxes on tobacco products approved by California voters via Proposition 10 in November 1998. The Commission is presented as a discretely presented component unit of the County because, although the County Board of Supervisors has no control over the revenues, budgets, staff, or funding decisions made by the Commission, the appointed Commission members serve at the will of the Board members who appoint them. A separate stand-alone annual financial report can be obtained by writing to the Orange County Children and Families Commission, 17320 Redhill Avenue, Suite 200, Irvine, CA 92614.

B. Government-Wide and Fund Financial Statements

New Reporting Model: GASB Statement No. 34

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement No. 34). GASB Statement No. 34 implements major changes in governmental financial reporting, including changes in the basic financial statements included in a government's comprehensive annual financial report (CAFR). This new governmental reporting model is effective for the County of Orange beginning with FY 2001-02, the period covered by this CAFR.

GASB Statement No. 34 requires the presentation of government-wide financial statements and fund financial statements. These statements replace the fund and account group statements presented under the previous GAAP for local governments. Where the previous financial statements for governmental funds were prepared on a modified accrual basis of accounting using the current financial resources measurement focus, the new government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements disclose long-term liabilities and capital assets, which were previously displayed in separate account groups for the governmental funds. Depreciation expense and accumulated depreciation, which were not previously reported for governmental funds, are also displayed on the government-wide statements. The capital assets and related depreciation also include the costs and depreciation of infrastructure assets, which were not previously capitalized and depreciated.

The new fund financial statements for the governmental funds continue to be prepared under the modified accrual basis of accounting and the current financial resources measurement focus. Fund financial statements are shown separately for specific major governmental funds, and in total for all other non-major governmental funds. Fund financial statements for proprietary funds continue to be reported under the accrual basis of accounting and the economic resources measurement focus, as they were prior to GASB Statement No. 34. Major enterprise funds are shown separately, with internal service funds shown in total. Financial data for the internal service funds is included with the governmental funds for presentation in the government-wide financial statements. Fiduciary funds are displayed by category in the fund financial statements, but are not reported in the government-wide financial statements, because the assets of these funds are not available to the County.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

B. Government-Wide and Fund Financial Statements (Cont'd)

Government-Wide Financial Statements

Under the new reporting model, the basic financial statements include both the government-wide and fund financial statements. GASB Statement No. 34 mandates the presentation of two basic government-wide financial statements:

- *Statement of Net Assets*
- *Statement of Activities*

The scope of the new government-wide financial statements is to report information on all of the nonfiduciary activities of the primary government and its component units.

Governmental activities, which are normally supported by taxes, intergovernmental revenues, and other nonexchange revenues, and business-type activities, which are financed by fees charged to external parties for goods or services, are reported in separate columns, with a consolidated total column presented for the primary government. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide Statement of Net Assets displays the financial position of the primary government, in this case the County, and its discretely presented component unit. The Statement of Net Assets reports the County's financial and capital resources, including infrastructure, as well as the County's long-term obligations. The difference between the County's assets and liabilities is its net assets. Net assets represent the resources that the County has available for use in providing services after its debts are settled. These resources may not be readily available or spendable and consequently are classified into the following categories of net assets in the government-wide financial statements:

- Net Assets Invested in Capital Assets, Net of Related Debt – this figure is derived by subtracting the outstanding debts incurred by the County to buy or construct capital assets from the net figure for capital assets shown in the Statement of Net Assets. Capital assets cannot readily be sold and converted to cash.
- Restricted Net Assets – this category represents restrictions imposed on the use of the County's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2002, the County reported restricted net assets of \$826,217 restricted for the following purposes:

Restricted for:	Amount
Capital projects	\$ 210,688
Debt service	33,785
Legally segregated special revenue funds	
restricted for grants and other purposes	515,448
Self-insurance programs	66,214
Regional park endowment	82
	<u>\$ 826,217</u>

Restricted Net Assets for business-type activities amounted to \$282,432, and are restricted for the use of Airport and Waste Management activities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd

B. Government-Wide and Fund Financial Statements (Cont'd)

- Unrestricted Net Assets – these resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a restricted fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net assets.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues and the extent to which the function or segment is supported by general government revenues, such as property taxes, local unrestricted sales taxes, and investment earnings. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the programs where the revenue is earned. Program revenues include:

- *Charges and fees to customers or applicants for goods, services, or privileges provided, including fines, forfeitures, and penalties related to the program*
- *Operating grants and contributions*
- *Capital grants and contributions, including special assessments*

Taxes and other items such as unrestricted interest revenue not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into a single column and all nonmajor proprietary funds aggregated into a single column. GASB Statement No. 34 sets forth minimum criteria (specified minimum percentages of the assets, liabilities, revenues or expenditures/expenses of a fund category and of the governmental and enterprise funds combined) for the determination of major funds. In addition to funds that meet the minimum criteria, any other governmental or enterprise fund that the government believes is of particular importance to financial statement users may be reported as a major fund.

The County reports the following major governmental funds:

General Fund – This fund accounts for resources traditionally associated with government and all other resources, which are not required legally, or by sound financial management, to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are primarily expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, capital outlay, and debt service.

Roads – This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County's share of state highway users' taxes and are partially supplemented by federal funds, and charges for engineering services provided.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Government-Wide and Fund Financial Statements (Cont'd)

Public Library – This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. Property taxes provide most of the fund's revenue; federal and state aid and charges for services provide the remaining revenue.

Tobacco Settlement – This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. On November 7, 2000, Orange County voters passed Measure H. This measure requires the County to utilize its share of the national tobacco litigation settlement revenues in the following percentages:

- 80% for specified health care services
- 20% for public safety

Refunding and Recovery Certificates of Participation (COPs) and Debt Prepayment – This fund accounts for the debt service transactions handled by the trustee bank for the Orange County Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation and the prepayment of the County's outstanding bonds.

Harbors, Beaches, and Parks – This fund accounts for the development and maintenance of County harbors and tidelands and related aquatic recreational facilities, the acquisition, operation and maintenance of County beaches, inland regional park recreation facilities and community park sites in the unincorporated areas. Revenues consist primarily of property taxes, state aid, lease and concession revenues, and park and recreation fees.

The County reports the following major proprietary enterprise funds:

Airport – This fund accounts for major construction and for self-supporting aviation-related activities rendered at John Wayne Airport, Orange County. The Airport's staff coordinates and administers general business activities related to the Airport, including concessions, fixed base operations, leased property, and aircraft tiedown facilities.

Waste Management – This fund accounts for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage.

Additionally, the County reports the following fund types:

Internal Service Funds – These proprietary funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis. Internal service funds are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the County's governmental activities, financial statements of internal service funds are consolidated into the governmental activities column when presented at the government-wide level.

Fiduciary Fund Types – Trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, investment trust or educational investment trust fund is used. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets or on the Statement of Fiduciary Net Assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities have been eliminated from the government-wide Statement of Activities.

Proprietary Funds

Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under GASB Statement No. 20, the County has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 when preparing the proprietary fund financial statements.

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

Enterprise funds are used to report activities that provide services for which fees are charged to external users. The County has two enterprise funds: John Wayne Airport Enterprise Fund and Integrated Waste Management Enterprise Fund. The principal operating revenues of the John Wayne Airport and Waste Management enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tiedown fees and (2) disposal fees charged to users of the waste disposal sites, respectively.

Internal Service Funds are used to report activities that provide goods or services to other funds of the County. The Internal Service Funds receive revenues through cost reimbursements of the goods and services provided to other County departments and agencies. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus and Basis of Accounting (Cont'd)

Governmental Funds

Governmental funds are used to report all governmental activities which are not primarily self-funded by fees or charges to external users or other funds, and which are not fiduciary activities. These activities include the County's basic services to its citizenry and to other agencies, including general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. There are five types of governmental funds:

- *General Fund*
- *Special Revenue Funds*
- *Capital Projects Funds*
- *Debt Service Funds*
- *Permanent Fund*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources increments (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenues that are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are received later than 60 days, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, while the receivable and deferred revenue are eliminated. For the year ended June 30, 2002, the County reported deferred revenue of \$160,909 in the governmental funds' Balance Sheet, of which \$41,856 represents the amount of intergovernmental revenues unavailable for revenue recognition.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt are recorded in the year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures at fiscal year end if they are due and payable. The related long-term obligation is recorded in the government-wide financial statements. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding at year-end.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

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NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Measurement Focus and Basis of Accounting (Cont'd)

Because the fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented on a separate page which explains the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

D. Budget Adoption and Revision

No later than October 2nd of each year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors adopts a budget in accordance with Government Code Sections 29000-29144 and 30200. The County publishes the results of this initial budgeting process in a separate report, the "Final Budget," which specifies all accounts established within each fund-agency unit (a collection of account numbers necessary to fund a certain division or set of goal-related activities).

Each year the original budget is adjusted to reflect increases or decreases in revenues and changes in fund balance, offset by an equal amount of increased appropriations for new reimbursement contracts. Department heads are authorized to approve appropriation transfers within a fund-agency unit. However, appropriation transfers between fund-agency units require approval of the Board of Supervisors. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund-agency unit level.

Annual budgets are adopted on a basis consistent with GAAP. Budgeted governmental funds consist of the General Fund, major funds, and other nonmajor governmental funds. Budgetary comparison statements are prepared only for the General Fund and major special revenue funds (listed below) for which the County legally adopts annual budgets, and are presented as part of the basic financial statements. The budgetary comparison statements provide three separate types of information: (1) the original budget, which is the first complete appropriated budget; (2) the final amended budget which includes all legally authorized changes regardless of when they occurred; and (3) the actual amounts of inflows and outflows during the year for budget-to-actual comparisons.

As described in more detail under Note 1.B, the major special revenue funds reported by the County are:

- *Roads*
- *Public Library*
- *Tobacco Settlement*
- *Refunding & Recovery COPs and Debt Prepayment*
- *Flood Control District*
- *Harbors, Beaches, and Parks*

Budgetary comparison information for nonmajor governmental funds is presented in the "Budgetary Comparison Schedules" of the supplemental information section.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Cash and Investments

The County maintains two cash and investment pools: the Orange County Investment Pool (the County Pool) and the Orange County Educational Investment Pool (the Educational Pool), the latter of which is utilized exclusively by the County's public school and community college districts. These pools are maintained for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities.

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with an outside service to provide pricing for the fair value of investments in the portfolio. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing.

Other than proceeds held by the County, proceeds from County-issued bonds are held by trustees and are invested in medium-term notes, mutual funds, investment agreements, repurchase agreements, and U.S. Government securities. Short-term investments are reported at cost, while long-term investments, such as U.S. Government securities, are stated at fair value. The trustee uses an independent service to value those securities, which are stated at fair value.

The County has not provided or obtained any legally binding guarantees during the period to support the value of participants' shares in the pools.

The pools value participants' shares using an amortized cost basis. Specifically, the pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. At June 30, 2002, there is no material difference between pool participants' shares valued on an amortized cost basis compared to fair value.

F. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving weighted average basis. Applicable fund balances are reserved for amounts equal to the inventories on hand at the end of the fiscal year, as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures/expenses when issued to user departments/agencies.

G. Prepaid Costs

The County pays for certain types of services in advance such as insurance premiums and rents and recognizes these costs in the period during which services are provided. Applicable fund balances are reserved for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds. At June 30, 2002, the County has prepaid costs of \$200,602 in the Statement of Net Assets, which primarily consist of the County's Investment Account with the Orange County Employee Retirement System (OCERS) for future pension costs of \$195,053. See Note 19 for additional information regarding this pension investment asset for the County's Retirement Plans.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

H. Land and Improvements Held for Resale

These assets, held by the County's Development Agency, are valued at the lower of cost or estimated net realizable value.

I. Capital Assets

Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, structures and improvements, equipment, and infrastructure. Infrastructure assets are grouped by networks consisting of flood channels, roads, bridges, trails, traffic signals, and harbors.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Asset Type	Capitalization Threshold
Land	\$ 0
Structures and Improvements	\$ 150
Equipment	\$ 5
Infrastructure	\$ 0

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements, equipment, and infrastructure are as follows:

Structures and Improvements	10 to 50 years
Equipment	3 to 20 years
Infrastructure	
Flood Channels	50 to 99 years
Roads	10 to 20 years
Bridges	50 years
Trails	20 years
Traffic Signals	15 years
Harbors	20 to 50 years

Maintenance and repairs costs are expensed in the period incurred. Expenditures that materially increase the capacity or efficiency or extend the useful life of an asset are capitalized and depreciated. Upon the sale or retirement of the capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the Statement of Activities.

J. Self-Insurance

The County is self-insured for general and automobile liability and workers' compensation claims, and for claims arising under the group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits program. Liabilities are accrued based upon estimated future amounts to be paid on known claims and incurred but not reported claims, including allocated loss adjustment expenses. (See Note 16).

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

K. Property Taxes

The provisions of the California Constitution and Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are determined by applying approved property tax rates to the assessed value of properties as established by the County Assessor, in the case of locally assessed property, and as established by the State Board of Equalization, in the case of State-assessed public utility unitary and operating non-unitary property. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The County collects property taxes on behalf of all property tax-receiving agencies in Orange County. Property tax-receiving agencies include the school districts, cities, community redevelopment agencies, independently governed special districts (not governed by the County Board of Supervisors), special districts governed by the County Board of Supervisors, and the County General Fund.

Property taxes receivables are recorded as of the date levied in property tax unapportioned funds, which are classified as agency funds. When collected, the property taxes are deposited into the County Treasury into the property tax unapportioned funds, where they are held in the unapportioned taxes liability accounts pending periodic apportionment to the taxing agencies. The property tax unapportioned funds are included in the agency funds category of the County's fund financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

Property tax collections are apportioned to the tax-receiving agencies periodically from the tax unapportioned funds based on various factors including statutory requirements; materiality of collections received; tax delinquency dates; the type of property tax roll unapportioned fund (secured, unsecured, supplemental, delinquent secured, delinquent unsecured, delinquent supplemental, homeowners' property tax subvention, or public utility); and cash flow needs of the tax-receiving agencies.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes is allocated to the corresponding funds for reporting purposes.

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end are recorded as deferred revenue. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County also records collections of disputed property taxes, such as those paid for properties for which the values have been appealed to the local Assessment Appeals Boards, within the unapportioned tax liability accounts in the property tax unapportioned funds. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or distributed to the tax-receiving agencies. As of June 30, 2002, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 0.94 percent of the combined beginning secured and unsecured property tax roll charge.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

K. Property Taxes (Cont'd)

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Unsecured taxes on the roll as of July 31 are delinquent August 31.	2922
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September).	2601
Secured tax payment due dates are:	
1st Installment - November 1, and	2605
2nd Installment - February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1st Installment - December 10, and	2617
2nd Installment - April 10.	2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

L. Compensated Employee Absences

Compensated employee absences (vacation, compensatory time off, annual leave and sick leave) are accrued as an expense and liability in the proprietary funds when incurred. In the governmental funds, only those amounts that are due and payable at year-end are accrued. Compensated employee absences that exceed this amount represent a reconciling item between the fund and government-wide presentations.

M. Statement of Cash Flows

Statements of Cash Flows are presented for proprietary fund types. Cash and equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the County's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

N. Indirect Costs

County indirect costs are allocated to benefiting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2001-02 County Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Federal Office of Management and Budget Circular A-87. The County has elected to allocate indirect costs to agencies within the General Fund that were not billed in FY 2001-02 in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

O. Effects of New Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the financial statements:

In June 1999, GASB issued Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*," effective for periods beginning after June 15, 2001. This Statement establishes new financial reporting requirements for state and local governments throughout the United States that will enhance the usefulness of governmental financial reports to the readers, improve the government's accountability in financial reporting and provide additional information for decision-making. One of the significant changes is that all capital assets, including infrastructure, will be reported within the basic financial statements, along with depreciation expense and accumulated depreciation. The County has elected to use the traditional approach of reporting depreciation of infrastructure assets rather than the modified approach.

Under the new reporting model, the County's basic financial statements present the following components in addition to the fund financial statements and other required supplemental information:

- Management's Discussion and Analysis (MD&A) - GASB Statement No. 34 requires that the basic financial statements be accompanied by a narrative introduction and analytical overview of the County's financial activities in the form of "MD&A" and that MD&A contains certain minimum content requirements. The discussion should be based upon facts, decisions or conditions known to management as of the auditor's report date.
- Government-Wide Financial Statements - These financial statements report the financial position and operating results of the County as an economic entity, excluding the information about fiduciary activities, and are prepared using the economic resources measurement focus and the accrual basis of accounting. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities.

The County has adopted the provisions of GASB Statement No. 34 and accordingly, has recorded its capital and other long-term assets and liabilities in the Statement of Net Assets and reported the revenues and costs of providing services to the County's citizenry under the accrual basis of accounting in the Statement of Activities. In addition, the County has restated net assets as of July 1, 2001 to reflect the cumulative effect of applying this statement (See Note 2).

In March 2000, GASB issued Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*" to be implemented simultaneously with Statement No. 34. The purpose of this interpretation is to clarify the standards for modified accrual recognition of certain liabilities and expenditures. There was no material effect on the financial statements as a result of implementing this new interpretation.

In June 2001, GASB issued Statement No. 37, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an Amendment of GASB Statements No. 21 and No. 34.*" This statement is effective for the same periods as GASB Statement No. 34 and either clarifies or modifies certain provisions in GASB Statements No. 21 "*Accounting for Escheat Property*" and No. 34. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in the MD&A, program revenue classifications, the minimum level of detail required for business-type activities in the Statement of Activities, etc. The County considered the effects of this statement when adopting the provisions of GASB Statement No. 34, as previously described.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

O. Effects of New Pronouncements (Cont'd)

Also in June 2001, GASB issued Statement No. 38, "*Certain Financial Statement Note Disclosures*", which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. Accordingly, certain note disclosures have been revised or added to comply with the provisions of this statement.

In May 2002, GASB issued Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*." This statement is effective for periods beginning after June 15, 2003. This statement amends GASB Statement No. 14 by providing additional guidance in determining whether certain organizations should be reported as component units. The County has early implemented these guidelines effective June 30, 2001. After careful evaluation of the new guidelines it was determined that the County has no additional component units to report.

P. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

Q. Consolidation of Governmental Funds' Balance Sheet Line Items in Statement of Net Assets

Several asset or liability line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Assets are combined into one line item in the Statement of Net Assets for presentation purposes. In order to avoid any confusion, the following table lists the line items shown in the Governmental and Proprietary Fund financial statements that are condensed together in the Statement of Net Assets.

<i>Statement of Net Assets Line Item</i>	<i>Corresponding Governmental and Proprietary Funds' Balance Sheet or Statement of Net Assets Line Item</i>
Cash and Cash Equivalents	Pooled Cash/Investments; Pooled Cash/Investments – Closure Costs; Cash Equivalents/Specific Investments; and Imprest Cash funds
Restricted Cash and Cash Equivalents	Restricted Cash and Investments with Trustee and Deposits In-Lieu of Cash
Receivables (net)	Accounts, Taxes, Interest/Dividends, Deposits, Notes and Loans Receivable; Allowance for Uncollectible Receivables; and Due from Other Governmental Agencies
Prepaid Costs	Prepaid Costs and Bond Issuance Costs
Capital Assets – Not Depreciated	Land and Construction in Progress
Capital Assets – Depreciable, Net of Accumulated Depreciation	Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; and Infrastructure and Accumulated Depreciation

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

2. CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 34 limits the use of fiduciary funds only to the reporting of assets that cannot be used to support the government's own programs. The change in the fiduciary fund structure resulted in the reclassification of several agency funds to the private-purpose trust funds. The impact of the reclassification resulted in an increase to the beginning fiduciary fund net assets of \$33,776.

GASB Statement No. 34 also requires governments to (1) report all long-term assets, including capital assets, and liabilities in the statement of net assets and (2) report all revenues and the cost of providing services under the accrual basis of accounting in the Statement of Activities. These adjustments are summarized in the following table and reflected in Net Assets Beginning of the Year for governmental activities in the Statement of Activities.

***Net Assets:**

Fund Balances at June 30, 2001, as previously reported	\$ 1,716,455
GASB Statement No. 34 adjustments:	
Addition of:	
Internal Service Funds net assets	56,916
Net capital assets	1,711,938
Other long-term assets	241,552
Prior years' uncollectible property tax revenue	10,652
Long-term liabilities	<u>(1,577,022)</u>
Net assets at July 1, 2001	<u><u>\$ 2,160,491</u></u>

3. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following fund has deficit net assets:

<u>Internal Service Fund</u>	<u>Deficit</u>
Workers' Compensation	<u><u>\$ 52,661</u></u>

The deficit in the Workers' Compensation Fund results from accrual of known losses and actuarially-projected Incurred But Not Reported claims (IBNR). Charges to County departments have not provided a sufficient cash flow to entirely fund the IBNR. The deficit has increased from the previous fiscal year due to increases in the costs of permanent disabilities and a trend of rising medical costs. The County anticipates increasing charges to departments over the next five years in order to achieve a higher funding level.

4. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled \$4,696,179 as of June 30, 2002. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."

The Treasurer maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The Investment Policy Statement (IPS) establishes a Money Market Fund and an Extended Fund as components of the County Pool and Educational Pool (the Educational Pool does not participate in the Extended Fund). The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Cont'd)

The primary investment objectives of the Treasurer's investment activities in order of priority are: protecting the safety of principal invested, meeting participants' liquidity needs, attaining a money market rate of return, and attempting to stabilize at a \$1 net asset value for the County Money Market Fund and the Educational Pool. These external investment pools contain deposits, repurchase agreements, and investments. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

A. Deposits

Monies must be deposited in state or national banks, or state or federal savings and loan associations located within the State. The County is authorized to use demand accounts and certificates of deposit. Additionally, monies deposited at national banks are used for compensating balances. The Treasurer has established separate bank and investment custody accounts for the County's school participants.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks. Collateral is required for demand deposits at 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

At June 30, 2002, the carrying amount of overdraft of the County's demand deposits was \$78,147 and the related bank balance was \$22,842, of which \$400 was insured by FDIC insurance with the remainder collateralized as described above. The County had \$180,834 in maturing securities the following business day to cover outstanding checks. In addition, the County had imprest cash funds in the amount of \$2,045, of which \$1,188 was insured by FDIC insurance, with the remainder collateralized as described above.

In addition, the County held a portion of its Restricted Cash and Investments with Trustee and non-pooled investments in the form of non-participating Bank Investment Contracts (BICs). These BICs are considered deposits with financial institutions and amount to \$13,081, of which \$1,511 is collateralized for non-pooled investment BICs and \$11,570 is uncollateralized for Restricted Cash and Investment BICs. The collateralized BICs and the uncollateralized BICs are FDIC insured for \$100 and \$100, respectively.

B. Investments

State statutes, Board of Supervisors' ordinances and resolutions, bond documents, covenants, trust agreements, and other contractual agreements govern the County's investment policies.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

External Investment Pools

The County Treasurer sponsors two external investment pools; the County Pool (consisting of both the Money Market Fund and the Extended Fund) and the Educational Pool.

The County Treasurer has a written Investment Policy Statement (IPS) specifically for the separately managed County and Educational Investment Pools. The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/P1/F1) as provided by at least two of the following nationally recognized rating agencies: Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch Ratings ("Fitch"), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank with at least one billion dollars in assets (30%); bankers' acceptances (40%); money market mutual funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); and repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%). In addition, no investment may be purchased from an issuer that has been placed on credit watch – negative by any of the three nationally recognized rating agencies, or whose credit rating by any of the three nationally recognized rating agencies is less than the minimum rating required by the IPS for that class of security.

Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Sections 53601 and 53635. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers, and also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

All permitted investments are required to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

The IPS expressly prohibits leverage, reverse repurchase agreements, and volatile structured notes or derivatives. Investments are marked to market on a daily basis for purposes of determining net asset value of the Fund. If the net asset value of the Money Market Fund for either the County or Educational Pool is less than \$.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005. Under the IPS, no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund. All investments will be United States dollar denominated.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

External Investment Pools (Cont'd)

The County Treasury Oversight Committee, established in December 1995, which consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools, and two public members, conducts treasury oversight. In addition, Fitch conducts a quarterly review of IPS compliance according to agreed-upon procedures. On October 5, 2001, Fitch reaffirmed the Pools' rating of "AAA/V1+." On August 6, 2002, Moody's Investor Service assigned credit ratings of Aaa and MR1 market risk ratings to the Orange County Investment Pool and Orange County Educational Investment Pool. The County and Educational Pools are not registered with the Securities and Exchange Commission.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school and community college districts and therefore includes 100 percent involuntary participants. At June 30, 2002, the County Pool includes approximately 3.10 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

As of June 30, 2002, floating rate notes comprised less than 10.33% and 3.35% of the County Pool and Educational Pool, respectively. Interest received on floating rate notes will rise or fall as the underlying index rate rises or falls. The use of floating rate notes in the County and Educational Pools is such that they hedge the portfolios against the risk of increasing interest rates, which reduces the fair value of the portfolio.

Condensed Financial Statements

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2002:

	<u>County Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<u>Statement of Net Assets</u>			
Net assets held for pool participants	<u>\$ 2,349,894</u>	<u>\$ 1,758,582</u>	<u>\$ 4,108,476</u>
Equity of internal pool participants	\$ 2,159,957	\$ --	\$ 2,159,957
Equity of external pool participants	189,937	1,758,582	1,948,519
Total Net Assets	<u>\$ 2,349,894</u>	<u>\$ 1,758,582</u>	<u>\$ 4,108,476</u>
<u>Statement of Changes in Net Assets</u>			
Net assets at July 1, 2001	\$ 2,184,907	\$ 1,385,917	\$ 3,570,824
Net change in investments by pool participants	164,987	372,665	537,652
Net Assets at June 30, 2002	<u>\$ 2,349,894</u>	<u>\$ 1,758,582</u>	<u>\$ 4,108,476</u>

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

Summary External Pool Financial Disclosures

Selected summary disclosures for each external pool as of June 30, 2002, are presented below:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
<u>County Pool</u>					
U.S. Government Agencies	\$ 691,077	\$ 689,493	Discount	07/05/02-01/11/05	456
Commercial Paper	634,492	637,313	Discount	07/01/02-11/06/02	35
Bankers' Acceptances	104,808	105,000	Discount	07/08/02-07/23/02	18
Medium-Term Notes	299,169	296,400	1.84-7.25%	11/15/02-02/01/05	207
Negotiable Certificates of Deposit	459,987	460,000	1.76-4.05%	07/11/02-10/10/02	52
Repurchase Agreements	60,000	60,000	2.03%	07/01/02	1
Money Market Mutual Funds	121,871	121,871	Variable	07/01/02	1
	<u>\$ 2,371,404</u>	<u>\$ 2,370,077</u>			<u>179</u>
<u>Educational Pool</u>					
U.S. Government Agencies	\$ 396,230	\$ 393,824	Discount	07/05/02-04/04/03	92
Commercial Paper	697,195	699,648	Discount	07/01/02-10/10/02	29
Bankers' Acceptances	49,841	50,000	Discount	07/10/02-09/18/02	34
Medium-Term Notes	126,621	124,235	1.94-6.7%	10/01/02-06/18/03	171
Negotiable Certificates of Deposit	332,014	332,000	1.76-2.12%	07/05/02-11/20/02	65
Repurchase Agreements	60,000	60,000	2.03%	07/01/02	1
Money Market Mutual Funds	129,118	129,118	Variable	07/01/02	1
	<u>\$ 1,791,019</u>	<u>\$ 1,788,825</u>			<u>57</u>

At June 30, 2002, the weighted average maturity of the County Pool was 179 days and the Educational Pool was 57 days. At the same date, the Net Asset Value (NAV) for both the County and Educational Pool was \$1.00. The average daily investment balance of the County Pool and the Educational Pool amounted to \$2.46 billion and \$1.39 billion with an average effective yield of 3.11% and 2.80%, respectively, for the year ended June 30, 2002.

Level of Custodial Risk

Investments are categorized below as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

	LEVEL OF CUSTODIAL CREDIT RISK				
	Category			Not Subject to Categorization	Fair Value
	1	2	3		
<u>County Pool:</u>					
U.S. Government Agencies	\$ 691,077	\$ --	\$ --	\$ --	\$ 691,077
Commercial Paper	634,492	--	--	--	634,492
Bankers' Acceptances	104,808	--	--	--	104,808
Medium-Term Notes	299,169	--	--	--	299,169
Negotiable Certificates of Deposits	459,987	--	--	--	459,987
Repurchase Agreements	60,000	--	--	--	60,000
Money Market Mutual Funds	--	--	--	121,871	121,871
Total Investments in County Pool	2,249,533	--	--	121,871	2,371,404
<u>Educational Pool:</u>					
U.S. Government Agencies	396,230	--	--	--	396,230
Commercial Paper	697,195	--	--	--	697,195
Bankers' Acceptances	49,841	--	--	--	49,841
Medium-Term Notes	126,621	--	--	--	126,621
Negotiable Certificates of Deposits	332,014	--	--	--	332,014
Repurchase Agreements	60,000	--	--	--	60,000
Money Market Mutual Funds	--	--	--	129,118	129,118
Total Investment in Educational Pool	1,661,901	--	--	129,118	1,791,019
<u>Specific Investments:</u>					
U.S. Government Agencies	19,392	--	--	--	19,392
Commercial Paper	14,936	--	--	--	14,936
Repurchase Agreements	1,082	--	--	--	1,082
Money Market Mutual Funds	--	--	--	32,773	32,773
Total Specific Investments	35,410	--	--	32,773	68,183
<u>Investments with Trustees:</u>					
Medium-Term Notes	164,568	--	--	--	164,568
Repurchase Agreements	--	22,351	--	--	22,351
U.S. Government Securities	--	23,275	--	--	23,275
Mutual Funds	--	--	--	86,947	86,947
Guaranteed Investment Contracts	--	--	--	219,426	219,426
State Investment Pool (LAIF)	--	--	--	12,027	12,027
Total Investments with Trustees	164,568	45,626	--	318,400	528,594
Total Investments	\$ 4,111,412	\$ 45,626	\$ --	\$ 602,162	\$ 4,759,200

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

As of June 30, 2002, the County's investment in LAIF is \$12,027. The total amount invested statewide by all public agencies in LAIF at that date is \$47,719,552. Of that amount, 96.91% is invested in non-derivative financial products and 3.09% in structured notes and asset-backed securities. The Local Investment Advisory Board ("The Board") has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

RECONCILIATION OF DEPOSITS AND INVESTMENTS

<u>Total Cash and Investments – Note 4:</u>	<u>Total</u>
Total Investments	\$ 4,759,200
Total Deposits - Carrying Amount Overdraft	(78,147)
Bank Investment Contracts	13,081
Imprest Cash Funds	2,045
Total Cash and Investments – Note 4	<u>\$ 4,696,179</u>

<u>Total Cash and Investments – Financial Statements</u>	<u>Total Governmental Funds</u>	<u>Total Proprietary Funds</u>	<u>Total Fiduciary Funds</u>	<u>Discretely Presented Component Unit</u>	<u>Total</u>
Pooled Cash/Investments	\$ 1,343,385	\$ 393,668	\$ 2,119,366	\$ 121,594	\$ 3,978,013
Pooled Cash/Investments – Closure Costs	--	120,913	--	--	120,913
Cash Equivalents/Specific Investments	--	23,730	--	--	23,730
Imprest Cash Funds	1,815	104	110	15	2,044
Restricted Cash and Investments with Trustee	467,064	49,952 *	28,497	--	545,513
Investments	10,219	14,404	1,343	--	25,966
Total Cash and Investments	<u>\$ 1,822,483</u>	<u>\$ 602,771</u>	<u>\$ 2,149,316</u>	<u>\$ 121,609</u>	<u>\$ 4,696,179</u>

* The total Proprietary Funds balance for Restricted Cash and Investments with Trustee does not include \$33,141 for Deposit In-Lieu of Cash.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

5. CHANGES IN CAPITAL ASSETS

Increases and decreases in the County's capital assets for governmental and business activities during the fiscal year were as follows:

	Primary Government			
	Balance July 1, 2001 ^(a)	Increases	Decreases	Balance June 30, 2002
Governmental activities ^(b) :				
Capital assets not depreciated:				
Land	\$ 453,916	\$ 20,275	\$ --	\$ 474,191
Construction in progress	379,159	87,557	(100,112)	366,604
Total capital assets not being depreciated	833,075	107,832	(100,112)	840,795
Capital assets, depreciable				
Structures and Improvements	678,487	77,807	--	756,294
Equipment	262,069	32,593	--	294,662
Infrastructure:				
Flood Channels	432,017	7,210	--	439,227
Roads	72,642	14,060	--	86,702
Bridges	60,064	1,036	--	61,100
Trails	32,365	--	--	32,365
Traffic signals	9,933	--	--	9,933
Harbors and Beaches	28,089	--	--	28,089
Capital assets, depreciable	1,575,666	132,706	--	1,708,372
Less accumulated depreciation for:				
Structures and Improvements	(266,289)	(22,630)	--	(288,919)
Equipment	(176,130)	(24,161)	--	(200,291)
Infrastructure:				
Flood Channels	(153,011)	(4,043)	--	(157,054)
Roads	(43,735)	(2,738)	--	(46,473)
Bridges	(13,079)	(1,196)	--	(14,275)
Trails	(16,174)	(1,157)	--	(17,331)
Traffic signals	(4,424)	(622)	--	(5,046)
Harbors and Beaches	(16,680)	(709)	--	(17,389)
Total accumulated depreciation	(689,522)	(57,256)	--	(746,778)
Capital assets, depreciable (net)	886,144	75,450	--	961,594
Governmental activities total capital assets, net	<u>\$1,719,219</u>	<u>\$183,282</u>	<u>\$(100,112)</u>	<u>\$ 1,802,389</u>

(a) The County contracted a capital-asset consulting firm to perform a complete inventory and valuation of the County's land, structures and improvements, and infrastructure assets as of June 30, 2001. When actual historical data was unavailable, the consulting firm used standard costing techniques to estimate the historical costs of land, structures and improvements and infrastructure assets and deflated these costs back to the year of acquisition. As a result of this, the County restated the value for land and structures and improvements as of July 1, 2001, and added infrastructure assets (including land associated with infrastructure assets) to the County's capital asset system in conformance with the capital asset reporting requirements of GASB Statement No. 34. The impact of these changes increased the County's governmental capital assets by \$734,345.

(b) For government-wide reporting purposes, the capital assets of the Internal Service Funds are consolidated within governmental activities.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

5. CHANGES IN CAPITAL ASSETS (Cont'd)

	Primary Government			
	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 32,748	\$ --	\$ --	\$ 32,748
Construction in progress	31,193	118	--	31,311
Total capital assets not being depreciated	63,941	118	--	64,059
Capital assets, depreciable				
Structures and Improvements	299,963	1,967	--	301,930
Equipment	36,356	9,803	--	46,159
Infrastructure	269,574	16,319	--	285,893
Capital assets, depreciable	605,893	28,089	--	633,982
Less accumulated depreciation for:				
Structures and Improvements	(101,701)	(11,662)	--	(113,363)
Equipment	(20,660)	(3,007)	1,646	(22,021)
Infrastructure	(85,222)	(14,183)	--	(99,405)
Total accumulated depreciation	(207,583)	(28,852)	1,646	(234,789)
Capital assets, depreciable (net)	398,310	(763)	1,646	399,193
Business-type activities total capital assets, net	<u>\$ 462,251</u>	<u>\$ (645)</u>	<u>\$ 1,646</u>	<u>\$ 463,252</u>

Depreciation expense was allocated among functions of the primary government as follows:

Governmental activities:	
General Government	\$ 5,533
Public Protection	22,132
Public Ways and Facilities	7,740
Health and Sanitation	1,386
Public Assistance	3,494
Education	1,037
Recreation and Cultural Services	6,537
Internal Service Funds' depreciation expense allocated to various functions	6,025
Total governmental activities depreciation expense ^(c)	<u>53,884</u>
Business-type activities:	
Airport	17,634
Waste Management	11,218
Total business-type activities depreciation expense	<u>28,852</u>
Total depreciation expense	<u>\$ 82,736</u>

(c) Total governmental activities depreciation expense differs from the increases in Accumulated Depreciation for governmental activities by \$3,372 as a result of the transfer of equipment and its related accumulated depreciation to the Internal Service Funds from the General Fund.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

6. RECEIVABLES

The different components of receivables reported in the Statement of Net Assets for Governmental and Business-type Activities as of June 30, 2002 are as follows:

Receivables	Accounts	Taxes	Interest ^(b)	Deposits	Notes	Loans	Due From Other Governmental Agencies	Less: Allowance for Doubtful Accounts	Total Receivables, Net
Governmental Activities ^(a)									
General Fund	\$ 30,534	\$ 5,036	\$ 3,050	\$ 2,686	\$ --	\$ 46	\$ 154,660	\$ (323)	\$ 195,689
Roads	207	--	618	--	--	--	3,004	(18)	3,811
Public Library	177	465	44	--	--	--	--	(1)	685
Tobacco Settlement	--	--	22	--	--	--	--	--	22
Refunding & Recovery COPs & Debt Repayment	--	--	167	--	--	--	--	--	167
Flood Control District	2,491	868	931	1,368	--	20	7,133	--	12,811
Harbors, Beaches, and Parks	1,674	643	201	--	--	1,195	381	--	4,094
Other Governmental Funds	1,303	24,449	1,278	2,784	17,323	350	13,348	(1)	60,834
Total	36,386	31,461	6,311	6,838	17,323	1,611	178,526	(343)	278,113
Less: amount not to be paid within the next fiscal year	(1,580)	--	--	(5,391)	(16,871)	(1,215)	--	--	(25,057)
Total receivables due within the next fiscal year	\$ 34,809	\$31,461	\$ 6,311	\$ 1,447	\$ 452	\$ 396	\$ 178,526	\$ (343)	\$ 253,056
Business-type Activities									
Airport	\$ 3,112	\$ --	\$ 232	\$ --	\$ --	\$ --	\$ 2,311	\$ (5)	\$ 5,650
Waste Management	10,094	--	2,140	--	--	--	452	(13)	12,673
Total	13,206	--	2,372	--	--	--	2,763	(18)	18,323
Less: amount not to be paid within the next fiscal year	(12)	--	--	--	--	--	--	--	(12)
Total receivables due within the next fiscal year	\$ 13,194	\$ --	\$ 2,372	\$ --	\$ --	\$ --	\$ 2,763	\$ (18)	\$ 18,311

(a) The balances for governmental activities include Internal Service Funds, which are consolidated to the General Fund for government-wide reporting.

(b) Interest Receivable balances differ from the amounts reflected in the fund financial statements due to the reclassification of the receivable "Due to Other Funds" for interest accrued in governmental and enterprise funds to "Interest Receivable" to reflect the nature of the receivable from the Unapportioned Interest Agency Fund.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

6. RECEIVABLES (Cont'd)

The \$1,580 of accounts receivable for governmental activities that are not expected to be received within the next fiscal year consist primarily of two components in the General Fund. \$649 relates to an annual general deferral repayment from the Yorba Linda Community Redevelopment Agency and \$373 relates to reimbursements due from the State of California. Another \$173 is due from MCI (currently going through bankruptcy) and the other \$385 is for various invoices and non-sufficient funds checks that remain on the books due to statute of limitation constraints.

The \$5,391 of deposits receivable for governmental activities that are not expected to be received within the next fiscal year consist primarily of money given to John Wayne Airport for the Santa Ana Heights Acoustical Insulation Program for \$2,589. In addition, there is a \$997 deposit due from the State of California for the Carbon Creek Channel and \$1,434 represents various cash advances and service contracts. The other \$371 is comprised of miscellaneous deposits.

The \$16,871 of notes receivable for governmental activities that are not expected to be received within the next fiscal year primarily consist of \$12,125 for loans to build affordable, low-income housing. Another \$1,949 is for construction of senior citizen housing, \$1,422 is for a County-owned Promissory Note and the other \$1,375 is for other various sales and loans.

The \$1,215 of loans receivable for governmental activities that are not expected to be received within the next fiscal year are for advances to three Dana Point Harbor Operators for use as working capital for their operating expenses. These advances are equal to three months of their anticipated operating expenses.

The \$12 of accounts receivable for business-type activities that are not expected to be received within the next fiscal year are for accounts that have already been through courts and collection but cannot be written off due to the statute of limitations.

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2002 is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	Roads	\$ 792
	Public Library	10
	Tobacco Settlement	14,887
	Refunding & Recovery COPs and Debt Prepayment	1,324
	Flood Control District	11,052
	Harbors, Beaches, and Parks	1,732
	Other Governmental Funds	18,222
	Internal Service Funds	607
	Fiduciary Funds	2,691
	Airport	1,227
	Waste Management	2,917
		<hr/>
		\$ 55,461

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

7. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

<u>Receivable Fund</u>	<u>Payable Fund</u>		
Roads	General Fund	\$ 246	
	Flood Control District	368	
	Harbors, Beaches, and Parks	80	
	Other Governmental Funds	23	
	Internal Service Funds	4	
	Fiduciary Funds	618	
	Airport	16	1,355
Public Library	General Fund	15	
	Internal Service Funds	5	
	Fiduciary Funds	44	64
Tobacco Settlement	General Fund	2,729	
	Fiduciary Funds	22	2,751
Refunding and Recovery COPs and Debt Prepayment	Fiduciary Funds		167
Flood Control District	General Fund	635	
	Roads	297	
	Harbors, Beaches, and Parks	190	
	Other Governmental Funds	450	
	Internal Service Funds	4	
	Fiduciary Funds	931	
	Airport	1	2,508
Harbors, Beaches, and Parks	General Fund	367	
	Roads	61	
	Flood Control District	86	
	Other Governmental Funds	21	
	Internal Service Funds	12	
	Fiduciary Funds	201	
	Airport	7	755
Other Governmental Funds	General Fund	14,842	
	Roads	146	
	Flood Control District	64	
	Harbors, Beaches, and Parks	18	
	Other Governmental Funds	3,350	
	Internal Service Funds	22	
	Fiduciary Funds	1,278	
	Airport	460	20,180
Airport	General Fund	172	
	Internal Service Funds	4	
	Fiduciary Funds	236	412
Waste Management	General Fund	11	
	Roads	2	
	Flood Control District	23	
	Harbors, Beaches, and Parks	3	
	Internal Service Funds	4	
	Fiduciary Funds	2,139	2,182

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

7. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

<u>Receivable Fund</u>	<u>Payable Fund</u>		
Internal Service Funds	General Fund	\$ 1,302	
	Roads	8	
	Public Library	34	
	Flood Control District	2	
	Harbors, Beaches, and Parks	13	
	Other Governmental Funds	13	
	Internal Service Funds	9	
	Fiduciary Funds	793	
	Airport	5	
	Waste Management	21	2,200
		<hr/>	
Fiduciary Funds	Other Governmental Funds	129	
	Internal Service Funds	47	
	Fiduciary Funds	1,178	1,354
		<hr/>	<hr/>
	Total		<u>\$ 89,389</u>

Due From/To Primary Government and Component Unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component Unit – Orange County Children and Families Commission	Fiduciary Funds – Agency Fund	\$ 734
Primary Government – General Fund	Component Unit – Orange County Children and Families Commission	\$ 235

The receivable balance from the Fiduciary funds of \$11,032 payable to the various Governmental funds, Proprietary funds, Fiduciary funds and Component Unit consists primarily of \$10,463 in accrued interest recorded in the Unapportioned Interest Fiduciary fund at year-end. The majority of the remaining interfund balances resulted from the time lag between the time that (1) goods and services are provided, (2) the recording of those transactions in the accounting system, and (3) payments between the funds are made.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

8. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from noncancelable operating leases with synthetic fuels corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2002, approximates \$67,750.

The County's General Fund, Flood Control District Fund, Harbors, Beaches, and Parks Fund, Airport Enterprise Fund and Waste Management Enterprise Fund lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2002 are as follows:

	General Fund	Flood Control District	Harbors, Beaches, and Parks	Airport	Waste Management
FY 2002-2003	\$ 161	\$ 297	\$ 6,740	\$ 28,556	\$ 560
FY 2003-2004	161	299	6,784	28,530	560
FY 2004-2005	113	215	6,846	25,575	368
FY 2005-2006	95	162	5,874	12,643	175
FY 2006-2007	95	160	5,692	912	175
	<u>625</u>	<u>1,133</u>	<u>31,936</u>	<u>96,216</u>	<u>1,838</u>
 FY 2007-2012	 119	 700	 25,480	 4,077	 875
FY 2012-2017	--	369	23,510	1350	875
FY 2017-2022	--	60	22,867	--	700
FY 2022-2027	--	60	22,360	--	--
FY 2027-2032	--	60	20,645	--	--
FY 2032-2037	--	60	19,056	--	--
FY 2037-2042	--	60	6,840	--	--
FY 2042-2047	--	60	10	--	--
FY 2047-2052	--	12	--	--	--
	<u>119</u>	<u>1,441</u>	<u>140,768</u>	<u>5,427</u>	<u>2,450</u>
 Total future minimum rentals	 <u>\$ 744</u>	 <u>\$ 2,574</u>	 <u>\$ 172,704</u>	 <u>\$ 101,643</u>	 <u>\$ 4,288</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$7 (General Fund), \$46 (Flood Control District), \$8,781 (Harbors, Beaches, and Parks) \$19,173 (Airport) and \$33 (Waste Management) for the year ended June 30, 2002.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2002 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		
<u>Governmental Funds</u>			
General Fund	Tobacco Settlement	\$ 10	
	Refunding and Recovery COPs and Debt Prepayment	79,082	
	Other Government Funds	29,869	
	Internal Service Funds	<u>1,780</u>	\$ 110,741
Tobacco Settlement	General Fund	23,275	
	Refunding and Recovery COPs and Debt Prepayment	409	
	Other Government Funds	<u>3,180</u>	26,864
Refunding and Recovery COPs and Debt Prepayment	General Fund	1,320	
	Other Governmental Funds	<u>7,865</u>	9,185
Flood Control District	General Fund		9,621
Harbors, Beaches, and Parks	Other Governmental Funds		385
Other Governmental Funds	General Fund	42,377	
	Roads	5,388	
	Public Library	2,517	
	Refunding and Recovery COPs and Debt Prepayment	185,645	
	Flood Control District	156,361	
	Harbors, Beaches, and Parks	3,265	
	Other Governmental Funds	<u>54,487</u>	<u>450,040</u>
Total Governmental Funds			<u>\$ 606,836</u>
<u>Proprietary Funds</u>			
Airport	Other Governmental Funds	\$ 6,810	
Waste Management	General Fund	<u>12,796</u>	
Enterprise Funds			\$ 19,606
Internal Service Funds	General Fund		<u>207</u>
Total Proprietary Funds			<u>\$ 19,813</u>

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

9. INTERFUND TRANSFERS (Cont'd)

Interfund transfers reflect a flow of assets between funds and component units of the primary government without equivalent flows of assets in return. Routine transfers were made in the current fiscal year to (1) relay cash/resources from contributing County funds to various debt service funds for the retirement of long-term obligations (2) to transfer Measure H Tobacco Settlement revenues, Available Cash Distribution and Public Safety Sales Tax Excess Revenues in compliance with the specific statutory requirements or Bankruptcy Recovery Plan, and (3) to transfer excess unrestricted revenues to finance various County programs based on budgetary authorizations by the Board of Supervisors. The details of the significant, routine transfers are outlined below:

Routine Transfers

- A total of \$115,557 was transferred out from the General Fund (\$88,511), the Refunding and Recovery COPs and Debt Prepayment Fund (\$7,866), and Other Governmental Funds (\$19,180) to the debt service funds in connection with debt service payments of the various County debt covenants.
- Of the \$23,275 transferred from the Tobacco Settlement Fund to the General Fund, \$22,359 was to finance various health care programs and \$720 was transferred for public protection programs. The remaining \$196 transferred to the General Fund was associated with interest.
- \$12,926 was transferred from the governmental funds to finance various programs. Of that amount, \$9,621 was transferred to the Watershed Management program from the Flood Control District and \$3,305 was transferred to the Local Redevelopment Authority from the General Fund.
- \$12,796 in net proceeds and interest earnings from the Importation of Out-of-County Waste Program earned by Waste Management during the current fiscal year was transferred to the General Fund for Recovery COP Lease Financing as part of the Bankruptcy Recovery Plan.
- \$11,945 was transferred from the Other Governmental Funds for the reimbursement of various County programs. \$5,382 was transferred to the Road Fund for road improvement projects and the remaining \$6,563 was transferred to the General Fund as follows:
 - \$1,700 for reimbursement of services provided to the Trial Courts by the County
 - \$1,427 for continuing projects involving the Americans with Disabilities Act
 - \$1,036 to fund positions for the Supplemental Law Enforcement Services program
 - \$1,200 for Social Service Agency programs.
 - \$1,200 for the Sheriff's Department programs
- \$11,537 was transferred from the General Fund to the County Public Safety Sales Tax Excess Revenue fund according to budget requirements. In addition, a transfer of \$4,248 was made from the Public Safety Sales Tax Excess Revenue fund for District Attorney operations.
- \$9,825 was transferred in connection with the bankruptcy litigation settlement. Of that amount, \$4,029 was transferred from the General Fund to the funds responsible for distribution to claimants. Another \$2,442 was transferred from the Litigation Reserve to the General Fund for distribution according to the bankruptcy court order. Lastly, \$3,354 in excess funds from Other Governmental Funds was transferred to the General Fund.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

9. INTERFUND TRANSFERS (Cont'd)

In addition, the County had nonrecurring transfers in the current fiscal year, which consisted of the following:

- \$346,847 of the total \$450,040 transfers from Other Governmental Funds consist primarily of \$2,294 to Harbors, Beaches, and Parks, \$2,547 to the Public Library, \$156,361 to the Flood Control District and \$185,645 to the Refunding and Recovery COPs and Debt Prepayment Funds to reclassify the beginning fund balances of similar-purpose funds consolidated with these major funds.
- \$33,321 was transferred to establish a new fund for the Theo Lacy Branch Jail expansion project. Of that amount, \$3,062 was transferred from the Tobacco Settlement Fund, and the remaining \$30,259 was transferred from the Other Governmental Funds.
- \$13,176 was transferred from Other Governmental Funds to the General Fund for Sheriff-Coroner improvement projects.
- \$1,168 was transferred to the General Fund when the Restricted Refinancing Proceeds fund was closed.

10. LONG-TERM OBLIGATIONS

General Obligation Bonds Payable

The amount of bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 2002, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$3,112,082.

Bankruptcy Recovery

Background

On December 6, 1994, the County filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the County investment pool (the "Pool"). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1,600,000. This loss was recorded on the County's books and records for FY 1994-1995 with approximately \$600,000 allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation (the "Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Bankruptcy Recovery (Cont'd)

The recovery plan provides that the legislatively redirected revenues from the Recovery Statutes, or other County monies in an equivalent amount, together with certain other County revenues will be used to satisfy the principal and interest payments on the Recovery Certificates of Participation (the "Recovery COPs"). The Recovery COPs and Refunding Recovery Bonds (the "Recovery Bonds") represent obligations of the County, payable from the General Fund. The enacted Recovery Statutes provide the Recovery COP holders with statutory liens on the County's motor vehicle license fees and certain sales tax revenues, and further permitted the County to elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the Recovery COPs. Recent State legislation has reduced the amount of motor vehicle license fees paid by owners of automobiles in the State. The State has made up the difference in motor vehicle license fees collected under reduced rates and the fees that would have been collected under the old fee formula, with monies from the State general fund.

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Recovery COPs and to pay the annual amount of \$800 plus interest due on Option B Pool Participant warrants. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was \$4,000; that amount has been reduced by the required annual amount of \$800, so that the remaining balance at the end of this fiscal year is \$3,200.

Revenue Bonds Payable and Certificates of Participation Pertaining to Bankruptcy Obligations

Refunding Recovery Bonds, Series 1995A

In June 1995, the County issued \$278,790 of 1995 Refunding Recovery Bonds (the "Recovery Bonds"). The Recovery Bonds are a General Fund obligation of the County and are being paid from motor vehicle license fees intercepted from the State Controller, to the extent there are sufficient fees available for debt service. These motor vehicle license fees, if not used to pay debt service, would otherwise be received by the County General Fund. The Recovery Bonds were issued to refund obligations of the County in partial satisfaction of claims of certain Investment Pool participants pursuant to the Comprehensive Settlement Agreement between the County and such participants. In June 1998, the County spent \$31,335 from its Debt Repayment Reserve to purchase defeasance securities, which were placed in escrow to legally defease a portion of the Recovery Bonds. As of June 30, 2002, \$25,145 of this amount had been paid, leaving an outstanding balance of \$6,190. The outstanding principal balance of these bonds as of June 30, 2002 was \$247,455.

Recovery Certificates of Participation, Series 1996A

In June 1996, the County issued \$760,800 in the aggregate principal amount of its 1996 Recovery Certificates of Participation, Series A (Recovery COPs). Proceeds of the Recovery COPs were applied to (1) provide funds for the payment of the claims of the holders of the County's 1994-95 Taxable Notes and 1994-95 Tax and Revenue Anticipation Notes (Series A and Series B), whose maturities were extended to June 30, 1996, and the payment of certain other claims and uses approved by the Bankruptcy Court, (2) refund \$124,700 of outstanding COPs executed and delivered on behalf of the County, (3) fund a reserve account for the Recovery COPs and two months of capitalized interest, and (4) pay costs associated with the delivery of the Recovery COPs. The Recovery COPs are general obligations of the County, secured by certain statutory liens and payable from an intercept of motor vehicle license fees and certain sales taxes, to the extent there are sufficient license fees and sales tax funds available for debt service. These motor vehicle license fees and sales taxes, if not used to pay debt service, would otherwise be received by the County General Fund. As of June 30, 2002, the outstanding principal balance of the Recovery COPs was \$657,770.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements

State Building Revenue Bonds, 1971

In 1971, the Orange County Civic Center Authority issued \$4,600 State Building Revenue Bonds. The State Building Revenue Bonds were secured by "Revenues" defined as (a) all rental and other income received by the Authority as lessor under the Santa Ana Civic Center State Building Lease, (b) all rental and other income derived by the Authority from the use and operation of the project, (c) damage awards, if any, under a construction contract and (d) interest or other income derived from funds other than the Construction Fund. In accordance with the State Building Lease, monthly rental payments were made by the State of California. The final rental payment was made by the State of California on December 1, 2001, and all of the bonds have been retired.

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, COPs representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in 1991 with the \$33,579 Refunding COPs (Civic Center Parking Facilities Project). The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation. At June 30, 2002, the outstanding principal amount of the Refunding COPs was \$16,164.

Tax Allocation Revenue Bonds, Series 1992A and 2001 (Neighborhood Development and Preservation Project)

In June 1992, the Orange County Financing Authority issued its \$28,082 1992 Tax Allocation Revenue Bonds, Series A (Neighborhood Development and Preservation Project) ("NDAPP Bonds"). The proceeds of the NDAPP Bonds were loaned to the Orange County Development Agency ("OCDA") for use in connection with OCDA's Neighborhood Development and Preservation Project ("NDAPP Project"). Debt service on the NDAPP Bonds is secured by a pledge of the property tax increments which OCDA receives from property within the NDAPP Project. On July 11, 2001, OCDA issued its \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 ("NDAPP Refunding Bonds"). A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140 of the \$27,072 outstanding NDAPP Bonds. Following issuance of the NDAPP Refunding Bonds, \$932 (par amount) of the NDAPP Capital Appreciation Bonds remained outstanding. As of June 30, 2002, the outstanding principal amount of the current interest NDAPP Bonds was \$932, and the accreted interest on the capital appreciation NDAPP bonds was \$111 for the year then ended.

Refunding Certificates of Participation, 1992 and Lease Revenue Refunding Bonds, Series 2002 (Juvenile Justice Center Facility)

In April 1989, COPs in the principal amount of \$89,150 were delivered to finance the acquisition, construction and installation of a project, which includes a courthouse, intake facility, administration facility and two parking facilities. In 1992, the \$102,735 Refunding Certificates of Participation (Juvenile Justice Center Facility) were delivered. On May 1, 2002, the Refunding COPs were currently refunded with the \$80,285 Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002. The Refunding Bonds are secured by lease payments made by the County to the Orange County Public Financing Authority. As of June 30, 2002, the outstanding principal amount of the Bonds was \$80,285.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements (Cont'd)

Orange County Public Facilities Corporation Revenue Bonds (Master Lease Programs)

The County issued a Master Lease Equipment Obligation on February 1, 1993. This obligation is secured by base rental payments on the acquired equipment. As of June 30, 2002, the outstanding equipment obligation was \$3,885.

Tax Allocation Revenue Bonds, 1993 (Santa Ana Heights Project Area)

In August 1993, OCDA issued \$57,965 Santa Ana Heights Project Area, 1993 Tax Allocation Revenue Bonds ("SAHP Bonds"). The SAHP Bonds are secured by property tax increment revenues received by OCDA attributable to the Santa Ana Heights Project Area. As of June 30, 2002, the outstanding principal amount of SAHP Bonds was \$50,730.

Taxable Pension Obligation Bonds, Series 1994A, 1996A, and 1997A

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of \$209,840 and Series 1994B in the aggregate principal amount of \$110,200 (Series 1994 Pension Bonds). The Series 1994 Pension Bonds were issued to refund the County's obligation under a debenture issued in favor of the Orange County Employees' Retirement System (OCERS) to fund the County's unfunded actuarial accrued liability to OCERS. The Series 1994 A and B Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994 Pension Bonds, the "Pension Obligation Bonds"). As of June 30, 2002, the outstanding principal amount of the Series 1994, 1996A and 1997A Pension Bonds were \$9,000, \$64,652 and \$60,960, respectively.

On May 11, 2000, a cash tender offer of certain outstanding Pension Obligation Bonds was completed. The County purchased and canceled \$288,290 (maturity value) of Pension Obligation Bonds for a cost of \$179,016. On June 22, 2000, the debt service on the outstanding Pension Obligation Bonds was provided for through the deposit with the trustee of \$175,492 principal amount of "AAA" rated debt securities issued by Fannie Mae along with \$9,151 in debt service funds already being held by the trustee. In accordance with irrevocable instructions, these securities, together with other cash amounts and investments held by the trustee will be used solely to retire the remaining Pension Obligation Bonds as they mature. Because this was an economic defeasance and not a legal defeasance, this debt will be reported in the County's financial statements until it is fully redeemed.

Teeter Plan Revenue Bonds, Series 1995A through E

In June 1995, the Orange County Special Financing Authority issued \$155,000 in taxable (1995 Series A - \$32,400) and tax-exempt (1995 Series B through E - \$122,600) Teeter Plan Revenue Bonds (Teeter Bonds). The Teeter Bonds are limited obligations of the Authority payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program, to be received by the Authority, the County and a trustee. The outstanding principal balance of the Teeter Bonds as of June 30, 2002 was \$124,425.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements (Cont'd)

1997 Certificates of Participation (Superior Court Integrated Court Management System Program)

In July 1997, the County issued \$7,830 of COPs to finance the Superior Court Integrated Court Management System Program. The proceeds were used to refinance certain computer equipment originally purchased by the County pursuant to an Equipment Lease Purchase Agreement, dated April 9, 1996, and to finance the acquisition and installation of certain other computer equipment. Debt service payments are made by the County and reimbursed by the Superior Court. On August 1, 2001, the final COPs payment was made.

Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project)

In April 2001, the Orange County Public Financing Authority issued \$10,330 Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project), to (1) finance the acquisition and installation of certain telecommunications equipment for general government purposes, (2) fund a debt service reserve fund, (3) pay capitalized interest on bonds, and (4) pay costs related to the issuance of bonds. The Bonds are limited obligations of the Authority payable solely from base rental payments to be made by the County pursuant to an Equipment Lease, and other amounts held by the Trustee in the funds established under the Indenture. As of June 30, 2002, the outstanding principal amount of the Lease Revenue Bonds was \$10,330.

Airport Revenue Refunding Bonds, Series 1993 and 1997

In July 1987, the County issued \$242,440 of Airport Revenue Bonds, Series 1987 to finance the construction of new facilities at John Wayne Airport. In October 1990, the County issued \$6,420 of COPs to finance the acquisition of loading bridges and baggage handling facilities (these certificates were defeased in July 1996). In July 1993, the County issued \$79,755 of revenue bonds to partially refund the 1987 Bonds. In April 1997, the County completed a forward refunding of the majority of outstanding 1987 Bonds. The principal amount of the refunding was \$135,050. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410. The outstanding principal amount of Airport Revenue Bonds as of June 30, 2002 was \$174,749. The Airport Bonds are secured by a pledge of net revenues of the Airport Enterprise Fund.

Waste Management System Refunding Revenue Bonds, Series 1997

In November 1997, the Orange County Public Financing Authority issued \$77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The Waste Management System Bonds are secured by a pledge of (1) the net operating revenues; (2) all money, securities and funds in the Waste Management Enterprise Fund that are required to be held or set aside therein for any purpose other than the payment of operating expenses pursuant to the terms of the sublease, but excluding any such money, securities and funds in the (i) closure account or any other fund or account required pursuant to state or federal law to be held in trust, (ii) environmental account in an amount not exceeding \$50,000, (iii) post-closure reserve account, or (iv) that were borrowed or received to pay capital costs and excluding any deposits or net incremental solid waste system revenues or any deposits that are required to be made in the rebate account; and (3) to the extent permitted by and in accordance with the procedures established under any applicable law, any rights of the County under any approvals, licenses and permits relating to the System. The outstanding principal balance of these bonds as of June 30, 2002, was \$64,737.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements (Cont'd)

Advance Refunding

In prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2002, \$37,290 of legally defeased debt remains outstanding.

Fiscal Year 2001-02 Debt Obligation Activity

During FY 2001-02, the following events concerning County debt obligations took place:

Teeter Plan Revenue Bond Remarketing

\$800 of the Series A Bonds were retired in October 2001, reducing the outstanding 1995 Series Bonds from \$125,225 to \$124,425.

The \$34,000 Series E Bonds underwent a mandatory tender on November 1, 2001, and were remarketed and converted from fixed rate bonds at 6.35% to variable rate bonds. After the conversion, interest rates, determined on a weekly basis, have ranged from 1.00% to 4.05% payable monthly, and currently, \$124,425, is being remarketed weekly.

Tax Allocation Refunding Bonds, Series 2001 (Neighborhood Development and Preservation)

On July 11, 2001, the OCDA issued \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001, at a premium of \$327 to (1) prepay a portion of the loan made to the Agency pursuant to a loan agreement, dated as of June 1, 1992, among the Agency, the Orange County Financing Authority and the trustee and thereby refund a portion, in the amount of \$26,140 of the Orange County Financing Authority 1992 Tax Allocation Revenue Bonds, Series A (Neighborhood Development and Preservation Project), and (2) pay the cost of issuing the bonds. The bonds are special obligations of the Agency and are payable exclusively from tax revenues for the Neighborhood Development and Preservation Project Area and from amounts on deposit in certain funds and accounts established under the indenture. The bonds are payable from tax revenues on a parity with the portion of the 1992 bonds which will remain outstanding. As of June 30, 2002, the outstanding principal amount of the Tax Allocation Refunding Bonds was \$26,487.

Lease Revenue Refunding Bonds, Series 2002 (Juvenile Justice Center Facility)

In May 2002, the Orange County Public Financing Authority issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds Series 2002, in the principal amount of \$80,285 with a premium of \$3,164. The Lease Revenue Refunding Bonds were issued to (1) redeem the outstanding Refunding Certificates of Participation (Juvenile Justice Center Facility), (2) finance the acquisition of certain software and computer equipment for general governmental purposes of the County, and (3) pay costs related to the issuance of the bonds, including bond insurance premiums. The bonds are limited obligations of the Authority payable solely from base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2002, between the Authority and the County (the "Lessee"), and other amounts held by the trustee in the funds and accounts established under the Indenture (other than the Rebate fund), except otherwise provided in the indenture. As of June 30, 2002, the outstanding principal amount of the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002 was \$83,449.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2002 were as follows:

Description	Balance July 1, 2001	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2002	Due Within One Year
<u>County of Orange</u>					
<u>Refunding Recovery Bonds - Series 1995 A:</u>					
Date Issued: June 1, 1995					
Interest Rate: 5.0% to 6.50%					
Original Amount: \$278,790					
Maturing in installments through June 1, 2015.	\$ 247,455	\$ --	\$ --	\$ 247,455	\$ 7,345
<u>Orange County Public Facilities Corporation</u>					
<u>Recovery Certificates of Participation</u>					
<u>Series 1996 A:</u>					
Date Issued: June 12, 1996					
Interest Rate: 4.20% to 6.00%					
Original Amount: \$760,800					
Maturing in installments through July 1, 2026.	680,975	--	(23,205)	657,770	24,320
<u>Orange County Civic Center Authority</u>					
<u>1971 State Building Revenue Bonds:</u>					
Date Issued: December 1, 1971					
Interest Rate: 5.00% to 5.40%					
Original Amount: \$4,600					
Maturing in installments through December 1, 2001.	330	--	(330)	--	--
<u>Orange County Public Facilities</u>					
<u>Refunding Certificates of Participation</u>					
<u>(Civic Center Parking Facilities Project):</u>					
Date Issued: August 1, 1991 – Current Interest					
Rate Bonds (CIB) and Capital Appreciation					
Bonds (CAB)					
To refund prior December 22, 1987 bond issue					
Interest Rate: CIB 4.40% to 6.75%					
Interest Rate: CAB - 6.85% to 7.05%					
Original Amount: CIB - \$24,495					
Original Amount: CAB - \$9,084					
Maturing in installments through December 1, 2018.	18,239	--	(2,075)	16,164	2,205

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 2001	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2002	Due Within One Year
<u>Orange County Financing Authority</u>					
<u>Tax Allocation Revenue Bonds - Series 1992</u>					
<u>A (Neighborhood Development and Preservation Project):</u>					
Date Issued: June 1, 1992 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior June 1, 1989 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.50% to 6.50%					
Original Amount: CIB - \$27,150					
Original Amount: CAB - \$932					
Maturing in installments through September 1, 2022.					
	27,072	--	(26,140)	932	--
<u>Orange County Development Agency</u>					
<u>Tax Allocation Refunding Bonds - Series 2001 (Neighborhood Development and Preservation Project):</u>					
Date Issued: July 11, 2001 - Current Interest Rate Bonds (CIB)					
To refund prior June 1, 1992 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.00% to 5.50%					
Original Amount: \$26,160					
Maturing in installments through September 1, 2022.					
	--	26,487	--	26,487	765
Deferred Amount on Refunding (1992 Orange County Development Agency Revenue Bonds)					
	--	(1,152)	--	(1,152)	--
<u>Orange County Public Facilities Corporation</u>					
<u>Refunding Certificates of Participation (Juvenile Justice Center Facility):</u>					
Date Issued: June 1, 1992 and delivered July 7, 1992 to refund prior April 1, 1989 bond issue					
Interest Rate: 3.20% to 6.375%					
Original Amount: \$102,735					
Maturing in installments through June 1, 2019.					
	83,845	--	(83,845)	--	--
<u>Orange County Public Financing Authority</u>					
<u>Revenue Refunding Bonds, Series 2002 (Juvenile Justice Center Facility Lease):</u>					
Date Issued: May 1, 2002, and delivered April 24, 2002, to refund the outstanding Refunding Certificates of Participation.					
Interest Rate: 3.00% to 5.375%					
Original Amount: \$80,285					
Maturing in installments through June 1, 2019.					
	--	83,449	--	83,449	3,240
Deferred Amount on Refunding (1992 Orange County Public Financing Authority Revenue Bonds)					
	--	(3,682)	--	(3,682)	--

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 2001	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2002	Due Within One Year
<u>Orange County Public Facilities Corporation</u>					
<u>Revenue Bonds Master Lease Program:</u>					
Date Issued: February 1, 1993					
Interest Rate: 3.40% to 5.50%					
Original Amount: \$24,780					
Maturing in installments through					
September 1, 2003.					
	4,875	--	(990)	3,885	2,280
<u>Orange County Development Agency</u>					
<u>Santa Ana Heights Project Area 1993</u>					
<u>Tax Allocation Revenue Bonds:</u>					
Date Issued: August 1, 1993 to refund prior					
September 1, 1987 bond issue					
Interest Rate: 3.25% to 6.20%					
Original Amount: \$57,965					
Maturing in installments through					
September 1, 2023.					
	51,835	--	(1,105)	50,730	1,170
<u>County of Orange</u>					
<u>Taxable Pension</u>					
<u>Obligation Bonds - Series 1994 A:</u>					
Date Issued: September 1, 1994					
Interest Rate: 6.15% to 8.21%					
Original Amount: \$209,840					
Maturing in installments through					
September 1, 2004.					
	9,000	--	--	9,000	--
<u>County of Orange</u>					
<u>Taxable Refunding Pension Obligation Bonds</u>					
<u>Series 1996 A:</u>					
Date Issued: June 1, 1996 - Current Interest					
Rate Bonds (CIB)					
Date Issued: June 12, 1996 - Capital					
Appreciation Bonds (CAB)					
To refund prior September 1, 1994 bond issue.					
Interest Rate: CIB - 7.47% to 7.72%					
Interest Rate: CAB - 8.09% to 8.26%					
Original Amount: CIB - \$81,680					
Original Amount: CAB - \$40,000					
Maturing in installments through September 1,					
2010 (CIB) and September 1, 2016 (CAB).					
	64,652	--	--	64,652	--

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 2001	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2002	Due Within One Year
<u>County of Orange</u>					
<u>Taxable Refunding Pension</u>					
<u>Obligation Bonds – Series 1997 A:</u>					
Date Issued: January 1, 1997 – Current Interest					
Rate Bonds (CIB)					
Date Issued: January 14, 1997 - Capital					
Appreciation Bonds (CAB)					
To refund a substantial portion of the					
September 1, 1994 bond issue.					
Interest Rate: CIB - 5.71% to 7.36%					
Original Amount: CIB - \$71,605					
Original Amount: CAB - \$65,318					
Maturing in installments through September 1,					
2010 (CIB) and September 1, 2021 (CAB).					
	61,210	--	(250)	60,960	13,840
<u>Orange County Special Financing Authority</u>					
<u>Teeter Plan Revenue Bonds</u>					
<u>Series A through E:</u>					
Date Issued: June 1, 1995					
Interest Rate: 1.0% to 4.05%					
(Series A, B, C, D, and E)					
Original Amount: \$155,000					
Maturing in installments through					
November 1, 2014.					
	125,225	--	(800)	124,425	--
<u>County of Orange</u>					
<u>Superior Court ICMS</u>					
<u>1997 Certificates of Participation:</u>					
Date Issued: July 30, 1997					
Interest Rate: 4.50% to 5.00%					
Original Amount: \$7,830					
Maturing in installments through August 1, 2001.					
	1,444	--	(1,444)	--	--
<u>Telecommunications Equipment Project</u>					
<u>Lease Revenue Bonds Series 2001:</u>					
Date Issued: April 1, 2001					
Interest Rate: 4.00%					
Original Amount: \$10,330					
Maturing in installments through					
December 15, 2008					
	10,330	--	--	10,330	1,310
Subtotal – Governmental funds	1,386,487	105,102	(140,184)	1,351,405	56,475

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 2001	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2002	Due Within One Year
<u>Enterprise Funds:</u>					
<u>Airport Revenue Refunding Bonds - Series 1993:</u>					
Date Issued: July 1, 1993 to refund \$68,440 of the 1987 Airport Revenue bond issue.					
Interest Rate: 3.00% to 5.50%					
Original Amount: \$79,755					
Maturing in installments through July 1, 2018.	68,341	117	(2,435)	66,023	2,595
Deferred Amount on Refunding (1993 Airport Revenue Bonds)	(8,033)	487	--	(7,546)	--
<u>Airport Revenue Refunding Bonds - Series 1997:</u>					
Date Issued: April 2, 1997 to refund \$131,490 of the 1987 Airport Revenue bond issue.					
Interest Rate: 5.00% to 6.00%					
Original Amount: \$135,050					
Maturing in installments through July 1, 2012.	116,267	(296)	(7,245)	108,726	7,765
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(4,621)	1,083	--	(3,538)	--
<u>Orange County Public Financing Authority</u>					
<u>Waste Management System Refunding</u>					
<u>Revenue Bonds - Series 1997:</u>					
Date Issued: November 18, 1997 to refund \$77,445 of the OCPFC 1988 Certificate of Participation (Solid Waste Management System)					
Interest Rate: 4.375% to 5.75%					
Original Amount: \$77,300					
Maturing in installments through December 1, 2013.	68,637	(170)	(3,730)	64,737	3,905
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(4,906)	564	--	(4,342)	--
Subtotal - Enterprise Funds	235,685	1,785	(13,410)	224,060	14,265
Total	\$ 1,622,172	\$ 122,957	\$ (153,594)	\$ 1,591,535	\$ 70,740

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Schedule of Long-Term Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by fund type on an annual basis:

Fiscal Year(s) Ending June 30	Enterprise Funds		Governmental Funds		Total
	Principal	Interest	Principal	Interest	
2003	\$ 14,265	\$ 13,032	\$ 56,475	\$ 69,676	\$ 153,448
2004	14,870	12,301	55,070	66,070	148,311
2005	15,655	11,516	56,737	64,105	148,013
2006	16,505	10,667	64,898	67,303	159,373
2007	17,450	9,723	65,241	63,999	156,413
2008-2012	103,210	32,640	364,875	295,023	795,748
2013-2017	45,875	8,437	327,229	362,956	744,497
2018-2022	11,495	957	179,348	192,039	383,839
2023-2027	--	--	182,875	27,748	210,623
Total	239,325	99,273	1,352,748	1,208,919	2,900,265
Less: Deferred Amount on Refunding	(15,426)	--	(4,834)	--	(20,260)
Discount	(1,822)	--	--	--	(1,822)
Add: Premium	1,983	--	3,491	--	5,474
Principal Payable, net	<u>\$ 224,060</u>	<u>\$ 99,273</u>	<u>\$ 1,351,405</u>	<u>\$ 1,208,919</u>	<u>\$ 2,883,657</u>

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2002 were as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Governmental Activities:					
Bonds and COPs Payable:					
Revenue bonds	\$ 219,667	\$ 106,445	\$ (29,365)	\$ 296,747	\$ 8,765
Certificates of participation	784,503	--	(110,569)	673,934	26,525
Pension obligation bonds	134,862	--	(250)	134,612	13,840
Recovery bonds	247,455	--	--	247,455	7,345
Add: Premium on Bonds Payable	--	3,491	--	3,491	--
Less: Deferred Amount on Refunding	--	(4,834)	--	(4,834)	--
Total Bonds and COPs Payable, net	<u>1,386,487</u>	<u>105,102</u>	<u>(140,184)</u>	<u>1,351,405</u>	<u>56,475</u>
Interest Accretion on Capital Appreciation Bonds	41,683	9,822	--	51,505	--

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Changes in Long-Term Liabilities (Cont'd)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Other long-term liabilities:					
Compensated employee absences payable	85,267	120,321	(90,195)	115,393	21,004
Arbitrage rebate payable	56	27	(35)	48	29
Pool participant claims	4,000	--	(800)	3,200	800
Capital lease obligations payable	60,236	2,148	(2,986)	59,398	8,215
Estimated litigation and claims	195	--	(195)	--	--
Total other long-term liabilities	149,754	122,496	(94,211)	178,039	30,048
Total Governmental Activities long-term liabilities	\$ 1,577,924	\$ 237,420	\$ (234,395)	\$ 1,580,949	\$ 86,523

Business-type Activities:

Bonds Payable:

Revenue bonds	\$ 253,245	\$ (349)	\$ (13,410)	\$ 239,486	\$ 14,265
Less deferred amount on refunding	(17,560)	2,134	--	(15,426)	(1,770)
Total Bonds Payable, net	235,685	1,785	(13,410)	224,060	12,495

Other long-term liabilities:

Compensated employee absences payable	2,019	3,089	(2,241)	2,867	340
Arbitrage rebate payable	177	68	--	245	245
Landfill site closure/postclosure liability	166,667	7,516	(692)	173,491	5,209
Total other long-term liabilities	168,863	10,673	(2,933)	176,603	5,794

Total Business-type Activities long-term liabilities

	\$ 404,548	\$ 12,458	\$ (16,343)	\$ 400,663	\$ 18,289
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Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2002 is \$115,393 compared with \$85,267 at June 30, 2001. The increased balance is attributable to several factors. The major portion of the increase is due to a change in the methodology for calculating sick leave. Improved technology allows access to more precise information for the purpose of calculating the Compensated Absences liability. This change in methodology accounts for approximately 64% of the increase of the liability from the previous year's balance. Furthermore, FY 2001-02 was the second year County employees were entitled to receive compensation resulting from the Performance Incentive Program, which was implemented throughout the County in FY 1999-00. Most of this amount will ultimately be paid from the General Fund. In addition, the number of County General employees rose by six percent. Finally, County staff received cost of living and/or pay adjustments conservatively estimated at four percent.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

10. LONG-TERM OBLIGATIONS (Cont'd)

Special Assessment District Bonds

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular county tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County, the State, or any political subdivision thereof is pledged to the payment of the bonds. Assessment District Bonds represent limited obligations of the County payable solely from special assessments paid by property holders within each district. Accordingly, such obligations are not included in the accompanying basic financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facilities District. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund. Accordingly, such obligations are not included in the accompanying basic financial statements.

The County is acting as an agent of the assessment and community facilities districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because of the County's limited obligation in connection with special assessment district and community facilities district debt, related transactions are recorded as contributions and distributions within the Investment Pool Trust Fund.

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts, Community Facilities Districts and Service Areas" Capital Projects Fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 2002, amounted to \$660,534.

11. CONDUIT DEBT OBLIGATIONS

From 1980 through 2002 the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single family homes and the construction of multi-family units to benefit low and moderate income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

The bonds do not constitute an indebtedness or liability of the County and neither the County, the State of California nor any political subdivisions thereof are obligated in any manner for the repayment of the bonds and in no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements.

As of June 30, 2002 there were 91 series of bonds outstanding, with an aggregate principal amount payable of \$1,244,988.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
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12. LEASES

Commitments Under Operating Leases

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments:

<u>Fiscal Year Ending June 30</u>	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
2003	\$ 10,233	\$ 27,578	\$ 37,811
2004	6,295	26,475	32,770
2005	4,627	21,429	26,056
2006	--	20,681	20,681
2007	--	18,006	18,006
2008-2012	--	54,400	54,400
2013-2017	--	248	248
Total	<u>\$ 21,155</u>	<u>\$ 168,817</u>	<u>\$ 189,972</u>

Total rent expenditures for operating leases incurred for FY 2001-02 was \$50,374.

Capital Leases

The following is a summary of property leased under capital leases:

Equipment	\$ 1,768
Less: Accumulated Depreciation	(292)
Structures and Improvements	74,721
Less: Accumulated Depreciation	(8,565)
Total	<u>\$ 67,632</u>

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2002:

<u>Fiscal Year Ending June 30</u>	
2003	\$ 8,215
2004	8,453
2005	8,247
2006	8,429
2007	8,479
2008-2012	35,313
2013-2017	16,408
2018-2022	10,220
Total minimum lease payments	<u>103,764</u>
Less: amount representing interest	<u>(44,366)</u>
Present value of net minimum lease payments	<u>\$ 59,398</u>

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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13. RESERVED FUND BALANCES

In the fund financial statements, governmental funds and certain fiduciary funds report reservations of fund balance/net assets for amounts that are not available for appropriation or are legally restricted for use for a specific purpose. In addition, the Board of Supervisors has established certain fund balance reserves for future purposes that are essentially designations of fund balances that represent tentative management plans that are subject to change. Fund balances at June 30, 2002 are reserved for the following purposes:

	General Fund	Roads	Public Library	Refunding & Recovery COPs and Debt Prepayment	Flood Control District	Harbors, Beaches, and Parks	Other Govern- mental Funds	Fiduciary Funds	Component Unit
Assets Not Available for									
Appropriations:									
Encumbrances	\$ 73,160	\$ 9,104	\$ 1,048	\$ --	\$ 23,289	\$ 7,429	\$ 74,827	\$ --	\$ --
Long-term Receivables	--	--	--	--	--	--	20,310	--	--
Imprest Cash Funds	1,642	--	53	--	--	--	121	--	--
Employee's Retirement	--	--	--	--	--	--	--	4,152	--
Inventory of Materials and Supplies	403	103	--	--	185	100	380	--	--
Prepaid Costs	1	--	--	--	--	--	161	--	--
Land and Improvements	--	--	--	--	--	--	1,951	--	--
Held for Resale	--	--	--	--	--	--	324,477	--	--
Debt Service	--	--	--	142,411	--	--	--	--	--
Private Purpose Trust	--	--	--	--	--	--	--	58,203	--
External Investment Pools	--	--	--	--	--	--	--	1,948,519	--
Children's Programs	--	--	--	--	--	--	--	--	128,212
Fund Balances Reserved by									
Board of Supervisors for a									
Future Purpose:									
Equipment Replacement	--	10,144	--	--	8,625	1,758	--	--	--
Equipment Purchase (New)	--	--	--	--	--	--	891	--	--
Administration Fees	--	--	--	--	--	--	4,362	--	--
Loans	100	--	--	--	--	1,195	16,536	--	--
Land Purchase	--	--	--	--	12,841	70	--	--	--
Operations	--	--	--	--	--	--	50	--	--
Future Road Projects	--	61,421	--	--	--	--	--	--	--
Library Contingencies	--	--	2,017	--	--	--	--	--	--
Capital Projects	--	--	--	--	112,986	7,793	--	--	--
General Reserves	--	--	--	--	7,376	9,525	718	--	--
Cash Difference Funds	9	--	--	--	--	--	--	--	--
Contingencies	17,000	--	--	--	--	--	25	--	--
Revitalization Projects	--	--	--	--	--	5,862	--	--	--
Operations - Strategic	--	--	--	--	--	--	--	--	--
Priorities	74,000	--	--	--	--	--	--	--	--
Maintenance & Construction -	--	--	--	--	--	--	--	--	--
Strategic Priorities	35,100	--	--	--	--	--	--	--	--
Reserved Fund Balances/	--	--	--	--	--	--	--	--	--
Net Assets	\$ 201,415	\$ 80,772	\$ 3,118	\$ 142,411	\$ 165,302	\$ 33,732	\$ 444,809	\$ 2,010,874	\$ 128,212

General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves and interfund loans are used by the County to ensure that sufficient cash is available to meet operating needs each fiscal year until property tax revenues are received in December and April. General reserves are increased or decreased by the County Board of Supervisors as part of the annual budget process.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
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14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require the Integrated Waste Management Department (IWMD) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, IWMD is required by GASB Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*", to report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

IWMD owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine – Active)
- Olinda Alpha (Brea – Active)
- Prima Deshecha (San Juan Capistrano – Active)
- Santiago Canyon (Orange – Inactive)
- Coyote Canyon (Newport Beach – Closed in 1995)

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by IWMD. Santiago Canyon and Coyote Canyon are owned by the Irvine Company and are under lease. IWMD closed Coyote Canyon in 1995, as this site had reached its maximum capacity. Santiago Canyon is currently inactive and due for closure in FY 2002-03. The \$173,491 balance reported as the landfill closure and postclosure care liability at June 30, 2002 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date (41.69%), less actual costs disbursed related to the closure of the Coyote Canyon landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$159,997 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 2002 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board's regulations, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD, on an annual basis, sets aside cash for the FRB, Olinda Alpha, Prima Deshecha, and Santiago Canyon landfills into escrow funds held by the County. As of June 30, 2002, \$120,913 has been set aside for these costs and is included in the accompanying Proprietary Funds' Statement of Net Assets as Pooled Cash/Investments – Closure Costs. The State mandated formula under which these contributions are computed will provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure and postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS (Cont'd)

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities; acceptable and prohibited waste types; and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities, relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever operated by the County. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase. IWMD has completed preliminary environmental site assessments for the former refuse disposal stations. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2002, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund within governmental or business-type activities:

	<u>Project Title</u>	<u>Remaining Commitments</u>
<u>Governmental Activities:</u>		
General Fund		
	Central Justice Center – Phase II HVAC/ADA	
	-Heating, Ventilation, & Air-Conditioning Improvements	
	to Comply with ADA	\$ 3,155
	Rancho Potrero (90 bed juvenile facility construction costs)	1,093
	Subtotal	<u>4,248</u>
Roads		
	Foothill Circulation Phasing Plan	
	-Alton-Irvine Blvd. to Foothill Transportation Corridor	2,233
	Subtotal	<u>2,233</u>
Flood Control District		
	Carbon Creek Channel/Coyote Creek Channel	1,045
	Fullerton Creek Channel – Knott to Beach	2,330
	Talbert Channel – Adams to Yorktown	4,214
	Huntington Beach Channel	
	Magnolia to Upstream Inland	6,993
	Subtotal	<u>14,582</u>
Other Governmental Funds		
	Rancho Potrero Leadership Academy	1,389
	Juvenile Hall – 60 bed expansion	1,729
	Renovate Barracks A through E	2,319
	Katella Training Facility – Firing Range, Classrooms, Parking Lot	4,990
	Coroner Training Facility	8,704
	Theo Lacy Jail Construction	28,463
	Sewer Improvements	2,811
	800 MHz Countywide Coordinated Communications System	
	(law enforcement and public works communications system)	2,671
	Subtotal	<u>53,076</u>

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Cont'd)

<u>Business-type Activities:</u>	<u>Project Title</u>	<u>Remaining Commitments</u>
Airport – Operating		
	Fire Station #33 Remodel	3,781
	Terminal Fire Alarm System Rehabilitation	1,258
	Seismic Remediation – Parking Structure	2,564
	Terminal Security Modifications	2,433
	Geotechnical Testing and Inspection	1,491
	Subtotal	11,527
	Total	\$ 85,666

In addition, the County is involved in the Santa Ana River Mainstem Project and the pending segregation of the Prado Dam. This project is a major flood control project, which when fully completed is designed to prevent the type of devastating damage caused by large-scale flooding that can occur on the average of once every 190 years in the Santa Ana River flood plain. The projects involve a combination of flood channel widening and reinforcement, construction of a new dam, Seven Oaks Dam, and the raising of the existing Prado Dam. The U.S. Army Corps of Engineers (COE) has agreed to designate the Prado Dam feature of this project as a separate element with a separate implementation and cost share agreement between the COE and the Orange County Flood Control District (OCFCD) only. Upon approval of this new agreement, the OCFCD's funding requirement is guaranteed not to exceed 50% of the costs for the Prado Dam element.

The Federal Government, OCFCD, San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing this project based on the COE's estimated total cost of \$1,400,000. The OCFCD currently estimates its share of costs for the two projects to be \$413,000 for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions.

OCFCD's remaining share of this project's costs exceeds current available funds. However, the State Legislature has authorized this project, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD eligible expenditures). The OCFCD expects to be reimbursed for an estimated \$44,000 in budgeted and encumbered funds over the next 12 months, after audit by the State Department of Water Resources (DWR). Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid if funds are available, with the remaining 10% paid after an audit by the State Controller's Office. As of June 30, 2002, the OCFCD has spent an estimated \$212,000 on this project, with resulting claims for estimated reimbursement of \$146,000, which has already been submitted or will be submitted over the next 12 months. To date, the OCFCD has submitted \$134,000 in claims for reimbursement of eligible expenditures and received \$101,000 in reimbursements. The County does not accrue these claim amounts as revenue due to the uncertainty of DWR eligibility approval and due to the typical lengthy review and audit completion time periods after claim submission.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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16. SELF-INSURANCE

The County is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; salary continuance; and providing health benefits to employees, retirees and their dependents. The County has chosen to establish internal service funds (ISFs) where assets are set aside for claim settlements and judgments associated with such losses.

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention, and the Workers' Compensation Program, which ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to \$5,000. A commercial insurance policy also provides an additional \$5,000 in coverage.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-insured up to \$5,000. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance provides up to an additional \$25,000 in liability coverage.

The County first began purchasing commercial insurance for the Workers' Compensation and the Property and Casualty Risk Programs in fiscal year 1997-98 to provide excess coverage. Since then, there have been no claims or settlements that exceeded the self-insurance threshold and accordingly, no claims or settlements have been paid by the excess insurance.

Independent actuarial studies are secured annually for the Workers' Compensation and Property and Casualty Risk ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include amounts for loss adjustment expenses and claims incurred but not reported. Claim liabilities are calculated considering inflation, claims cost trends including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Claims liabilities have been discounted at a rate of 3.25% to reflect anticipated future investment earnings.

All County departments and other governmental agencies authorized by the Board of Supervisors to participate in the Workers' Compensation ISF are charged for their pro rata share of costs based upon employee classification rates and claims experience. All County departments participate in the Property and Casualty Risk self-insurance program and are charged for their pro rata share based upon claims experience and budgeted positions. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controllers' Office for cost plan allocations.

The County has also established the Unemployment Insurance ISF, which covers all employees, and the County Indemnity Health Plans and Self-Insured Benefits ISFs, which provide health, dental and salary continuance for a portion of its employees. The County pays through the State of California the standard unemployment benefits. The health insurance coverage is up to \$2,000 for each covered employee or dependent.

Revenues of the ISFs, when combined with current reserves and future contributions, are expected to provide adequate resources to meet liabilities as they come due.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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16. SELF-INSURANCE (Cont'd)

Changes in the balances of claims liabilities during the past two fiscal years for these self-insurance funds are as follows:

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 2000-01	\$ 43,332	\$ 28,192	\$ 11,295	\$ 82,819
Claims and Changes in Estimates	31,802	3,018	38,828	73,648
Claim Payments	(20,146)	(6,063)	(39,462)	(65,671)
Unpaid Claims, End of FY 2000-01	54,988	25,147	10,661	90,796
Claims and Changes in Estimates	37,131	4,537	45,929	87,597
Claim Payments	(20,414)	(8,231)	(45,009)	(73,654)
Unpaid Claims, End of FY 2001-02	<u>\$ 71,705</u>	<u>\$ 21,453</u>	<u>\$ 11,581</u>	<u>\$ 104,739</u>

There is an additional \$742 in the General Fund for claims payable to management employees for unreimbursed medical expenses, accidental death and dismemberment insurance, health insurance, professional organization fees and, in lieu of the aforementioned, actual cash disbursements.

The workers' compensation unpaid claims continue to increase due to increases in the costs of permanent disabilities and a trend in rising medical costs.

The overall increase in property and casualty risk claim payments this period reflects several costly settlements. However, the overall exposure of unpaid claims continues to decrease due to the ongoing impacts of city incorporations, which continue to reduce risk exposure. A change in procedure in all Orange County courts continues to reduce the number of lawsuits filed against the County. Cases are resolved promptly which usually results in a lower cost of settlement.

17. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS

There are lawsuits and claims pending against the County, which arise during the normal course of business. To the extent the outcome of such litigation would result in probable loss to the County, any such loss would be accrued in the accompanying financial statements. The lawsuits and claims discussed below represent issues in which the financial loss to the County has been determined to be a potential liability by County Counsel.

Sparkes Pit/Rains Refuse Disposal Station #18 – Regulatory Action. Located in the City of Anaheim, Sparkes Pit is a refuse disposal station formerly leased to and operated by the County from 1958 to 1960. The State Water Board and other regulatory agencies are seeking certain improvements to the site to mitigate possible groundwater contamination. In addition, the regulators may require the installation of a landfill gas system upgrade or installation of a new system. It is likely that the County will incur costs as a result of these regulatory actions. Although the ultimate costs, if any, are unknown, they may be significant. However, the County's Chapter 9 discharge may prove to be an absolute defense to this matter. The County is aggressively seeking to join other parties who participated in past operations of the site to share in the costs of mitigation. At this early stage of the regulatory actions, it is not possible to predict the outcome of these actions or the success of the County's attempt to join other responsible parties.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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17. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

Cannery Street Refuse Disposal Station #4. A park owned by the City of Huntington Beach is located on a site that was formerly used as a refuse disposal station operated by the County of Orange. Methane gas was detected on the property. The Local Enforcement Agency (LEA), the entity that regulates landfills, ordered the City and the Huntington Beach School District to develop a plan to control the landfill gas at the site. To the best of our knowledge, the City of Huntington Beach is in the process of implementing the landfill gas mitigation required by the LEA. The County cannot estimate the cost to control landfill gas. The costs, however, could be substantial. The City has notified the County that it is their position that the County is responsible for control of landfill gas from that site. The City, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

La Habra Refuse Disposal Station # 11. A park owned by the City of La Habra is located on a site that was formerly leased and used as a refuse disposal station operated by the County of Orange. The site was operated by the City for refuse disposal prior to 1949 and by the County between 1949 and 1958. Methane gas was detected on the property. The LEA ordered the City to develop a plan to control the landfill gas at the site. To the best of our knowledge, the City of La Habra is in the process of implementing the landfill gas mitigation required by the LEA. The County cannot estimate the cost to control landfill gas. The costs, however, could be substantial. The City has notified the County that it is their position that the County is responsible for control of landfill gas from that site. The City, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

San Joaquin Refuse Disposal Station # 13. The site, owned by the University of California at Irvine, was leased and operated by the County of Orange as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the Food and Drug Administration. Methane gas was detected on the property. The LEA is discussing with the owners follow-up actions to further evaluate landfill gas migration. The County cannot estimate the cost to control landfill gas. The costs, however, could be substantial. The University has notified the County that it is their position that the County is responsible for control of landfill gas from that site. The University, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

Forster Refuse Disposal Station # 17. The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County of Orange from 1958 to 1976. The current owner is proposing a change in land use for the property and has notified the County that it is their position that the County is responsible for closure of the site. The County cannot estimate the cost to close the site. The costs, however, could be substantial. It is possible that the County could incur significant costs if the matter results in litigation. The owner has not initiated a claim.

Lane Road Refuse Disposal Station # 17. The site, located in the City of Irvine and owned by American Golf Corporation and others, was leased and operated as a refuse disposal station by the County of Orange from 1961 to 1964. The Santa Ana Regional Water Quality Control Board issued a Directive to the property owner to investigate the impact of landfill gas on groundwater. The owners have not yet presented a claim against the County, but IWMD understands they are retaining counsel to evaluate any rights they may have against the County or other parties. The County cannot estimate the cost for potential mitigation. The costs, however, could be substantial. It is possible that the County could incur significant costs if the matter results in litigation.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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17. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

Barratt American Incorporated, et al., v. County of Orange. Plaintiffs claim that the County of Orange has overcharged on its building permit and inspection services since 1992. Specifically, they allege the County has collected fees in excess of the costs of providing the services in the amount of \$16,232 as of May 1999, of which Plaintiffs claim they paid \$42. Plaintiffs further claim the County improperly used some of the alleged surplus to pay for certain administrative expenses arising out of the Orange County Bankruptcy proceeding as well as for other services or charges in an amount not known to the Plaintiffs. Finally, Plaintiffs allege that since May 1999, the County has collected and will collect an estimated \$40,000 in fees pursuant to an alleged defective resolution.

The County denies the allegations and claims that the plaintiffs' claims are barred by statutes of limitations and other legal doctrines. A first phase of trial took place on October 30, 2000 for a court determination of certain County defenses including statutes of limitations. The court ruled that the existing County resolution is valid and that Plaintiffs' claims arising out of the former 1992 resolution are barred by applicable statutes of limitations.

A second phase of trial took place on August 17, 2001. The court ruled that Plaintiffs cannot challenge in state court an approximately \$2,500 allocation of investment pool loss approved by the United States Bankruptcy Court in the Orange County Bankruptcy proceeding. The court further ruled against the Plaintiffs on their claim that Office of Management and Budget Circular A-87 controls the County's discretion on how to disburse the surplus. The court also ruled against the Plaintiffs on their claim that the County cannot maintain a reserve balance in the surplus funds. Plaintiffs will pursue additional claims against the County in a final Phase 3 trial that has not yet been scheduled by the court.

On March 26, 2001, Plaintiffs filed a new complaint against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaint is similar to the former complaint except that the new complaint challenges the enactment of a fee reduction ordinance enacted by the County early in 2001. The County denies the allegations and intends to defend itself in court against the complaint. The court has not yet set a trial date.

Potential Fire Station Claims. Certain fire stations previously owned by the County were transferred to the Orange County Fire Authority (OCFA) in connection with OCFA's formation in March 1995. As part of the joint powers agreement forming OCFA, of which the County is a party, the County agreed to indemnify OCFA for certain claims and liabilities arising prior to OCFA formation.

OCFA has contacted the County regarding potential claims against the County arising out of possible contamination from motor vehicle fuels that leaked from underground storage tank systems at nine fire stations. OCFA claims are currently tolled until February 2003 under tolling agreements with the County. In addition, an abutting landowner at one of the stations has threatened litigation alleging that contamination from leaking storage tank systems has migrated to the abutting property.

Although the County may face liability for contamination from underground storage tanks at fire stations, and the potential liability may be substantial, the County assessment of the potential claims is in the preliminary stages, making accurate quantification of potential liability, if any, difficult. With regard to the potential third-party claim, the County has not been provided sufficient access to the abutting property to permit an adequate assessment of the potential contamination.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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17. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

County of Orange v. Assessment Appeals Board No. 3. The County brought an action against County Assessment Appeals Board No. 3 over a ruling that the County Assessor unlawfully assessed a parcel of residential property. The issue is whether reductions in assessed value under Proposition 8 are permanent or temporary. If temporary, the Assessor may increase the assessment for a given year by more than 2% from the previous year's assessment up to the previously established base year value under Proposition 13, plus an annual inflation factor of up to 2%. If permanent, the Proposition 8 reduction establishes a new base year value, which limits the Assessor's ability to increase such value in subsequent years to up to 2% annually.

The Assessor contends that Proposition 8 reductions in assessments are temporary and when the assessed value of the property returns to pre-reduction value, the Assessor must return to using the base year value, adjusted for inflation, even if the increased assessment exceeds 2% of the prior year's reduced value.

On December 27, 2001, the Superior Court ruled that the County Assessor used an illegal assessment method in recapturing Proposition 13 values. The County Board of Supervisors voted not to challenge the December 27, 2001 order, recommended that the Assessor stop using the recapture practice, directed appropriate County staff to notify affected taxpayers and authorized the Assessor, if he chooses to appeal, to hire his own counsel. None of the actions taken by the Board of Supervisors is intended to affect the Assessor's right to appeal. Subsequently, the Board of Supervisors authorized the Treasurer-Tax Collector and the Auditor-Controller to each hire counsel to advise them on matters related to this case. Class certification issues have not been decided (see note 21.G for subsequent event). Should the court's decision become final, the potential financial impact to the County and other public entities may be material. The Auditor-Controller estimates refund exposure to the County General Fund to exceed \$24,000, with a future reduction in tax base exceeding \$8,000 annually. Other County or County-related entities affected include: Orange County Library District, \$3,750 refunds, \$1,250 reduced tax base; Orange County Flood Control District, \$6,800 refunds, \$2,300 reduced tax base; Orange County Harbors, Beaches, and Parks, \$5,100 refunds, \$1,700 reduced tax base; and the Orange County Development Agency, \$2,073 refunds, \$714 reduced tax base.

Soli-Flo Partners, LP v. County of Orange. This litigation involves two lawsuits filed by a contractor, Soli-Flo Partners, against the County on two separate projects. The Court has consolidated the two lawsuits.

The first lawsuit arose out of a dredging project in the Newport Dunes Marina. Plaintiff claims it is owed the remainder of its contract balance, plus additional compensation for alleged delay to its work in the sum of approximately \$1,400. The County has cross-claimed against Plaintiff and its surety for the cost to complete Plaintiff's work and against Plaintiff for making false claims to the County.

The second lawsuit arose out of a dredging project in the Upper Newport Bay. Plaintiff claims it is owed compensation for its dredging work, together with additional compensation for alleged delay to its work in the sum of approximately \$1,400. The County filed an answer to the complaint, and a cross-complaint against the plaintiff for making false claims to the County.

The consolidated cases were set for trial on November 4, 2002. Shortly before the scheduled trial, Soli-Flo and the County reached a proposed settlement under which the County will make a payment to Soli-Flo of \$170, and Soli-Flo will dismiss both lawsuits. The proposed settlement is subject to the approval of the Board of Supervisors.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

17. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

Coordination Proceeding Special Title (Rule 1550 (B)) - Retirement Case. On August 14, 1997, the Supreme Court of the State of California issued a decision in a case entitled *Ventura County Deputy Sheriffs Association vs. Board of Retirement of Ventura County Employees' Retirement Association*. On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a county retirement system operating under the provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements, received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefit.

The court has ruled that disputed items of compensation are not includable in "compensation earnable" and that the *Ventura* decision should be applied retroactively. Questions relating to the finding of such retroactive application remain before the court. Judgment has not been entered. Should the County prevail on appeal, it could realize a reduction in retirement obligations of approximately \$175,000 or in excess of \$15,000 for 15 years. Should the employees prevail on appeal, future retirement costs to the County could increase significantly.

Representatives of the members of the County retirement system, individual plaintiffs, and the County are actively meeting in an effort to settle the case. The proposal under consideration will result in no new costs to the County and no additional costs to members. If successful, the settlement will be subject to objection by individual class members and will require final approval by the court. Refer to Note 21 for updated information.

18. OTHER CONTINGENCIES

In addition to the accrued liabilities for self-insurance claims incurred but not reported and other litigation and claims described previously, the County is also a defendant in numerous other lawsuits and claims arising from, among other things, breach of contract and tax disputes. Although the aggregate amount asserted in such lawsuits and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or changes in financial position of the funds of the County.

As the owner and operator of a number of landfill sites, the County has potential exposure to environmental liability. IWMD may be required to perform corrective action for contaminate releases at any of its current or former refuse disposal stations, even if the County no longer owns the site. IWMD has completed preliminary environmental site assessments for the former refuse disposal stations. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

Grant monies received from federal and state sources are subject to audit by these agencies to determine whether expenditures are in compliance with the respective grant provisions. County management does not believe that a material liability will result from these audits. However, there is currently an outstanding issue that could have an impact on the County's Health Care Agency (HCA) related to federal funding.

HCA is currently under investigation for potential civil fraud and False Claims Act violations in connection with its Medicare billings for mental health services. The investigation is being directed by the United States Attorney's Office and the Office of the Inspector General (OIG) for the Department of Health and Human Services. The County believes that the investigation focuses on HCA's Medicare billing practices from 1990 through 1999, and that the investigators believe that HCA may have made numerous false claims on its Medicare bills during that period and may have submitted false claims for physician services that were not rendered by physicians.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
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18. OTHER CONTINGENCIES (Cont'd)

During 2001, the County filed a motion to quash or limit the scope of an OIG subpoena on the basis that local government entities are immune from federal False Claims Act liability. Although the court determined that it did not have jurisdiction to reach the issue of federal False Claims Act liability, the Supreme Court may decide that issue next term. The County has negotiated to narrow the scope of the subpoena to a limited number of documents for the time period January 1, 1990 to December 31, 1999. HCA has substantially completed production of the subpoenaed documents.

No civil lawsuits have been filed by the federal government in connection with the investigation. Because no civil lawsuits have yet been filed in this investigation, and because the issues in this matter involve complex and disputed issues of fact and law, it is difficult to estimate any potential penalties and/or other costs that the County may be required to pay.

19. RETIREMENT PLANS

Orange County Employees Retirement System (OCERS)

Plan Description. Substantially all County employees participate in OCERS, a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system and account for approximately 17.62% of the active and retired system membership.

OCERS provides for retirement, death, disability, and cost-of-living benefits, and is subject to provisions of the County Employees' Retirement Law of 1937 and other applicable statutes. Members employed after September 20, 1979, are designated as Tier II members. Members employed prior to September 21, 1979, are designated as Tier I members; the establishment of Tier II resulted in a reduced allowance beginning at age 50. The retirement allowance is based upon the member's age at retirement, final compensation, and the total years of service under the System. If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

OCERS issues a stand-alone annual financial report each year ending December 31. OCERS annual financial report can be obtained by writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701 or by calling (714) 558-6200.

Funding Policy. In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. For FY 2001-02, employer's contributions, as a percentage of covered payrolls, were .96% for General members and 8.73% for Safety members.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

19. RETIREMENT PLANS (Cont'd)

Orange County Employees Retirement System (OCERS) (Cont'd)

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. Effective June 28, 2002, for Tier I and II Safety members, the rate of contribution is calculated to provide an annuity equal to 3/100 of the member's "final compensation" for each year of service rendered at age 50. Probation Services employees were granted safety retirement status by the Board of Supervisors as of June 28, 2002 and will earn benefits under a 2/100 at 50 formula for service after that date. On or after June 10, 2005, Probation Service employees will earn benefits under a 3/100 at 50 benefits formula.

The Pension Liability or Asset at transition was calculated in accordance with the provisions of GASB Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers,"* and was zero at transition and the effective date.

According to OCERS most recent annual report, the County's 2001 contribution represented 76% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued \$320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to fund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account (Investment Account) with the POB proceeds in the amount of \$318,300. For FY 1995-96 the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and Unfunded Actuarial Accrued Liability (UAAL) portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provides for the Investment Account to be used to fund the County's employer contribution in a decreasing percentage each year. The Investment Account allowed for 70% of the employer contribution to be paid from the Investment Account Agreement; however, due to higher than anticipated investment earnings, the \$38,322 contribution for fiscal year 2001-02 was paid entirely by the Investment Account. In subsequent years the portion of normal costs paid from bond proceeds would be adjusted by a reduction of 5% of normal costs each year for 20 years, increases or decreases in relation to changes in the UAAL, and returns on investments which vary from anticipated. The balance of the investment account on June 30, 2002 was \$195,053.

Because the amortized gains of the retirement system have been higher than anticipated, the required annual percentage of employer contributions has remained low. The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/00	\$ 232	\$ 50,262	\$ 50,494	100%
06/30/01	--	45,932	45,932	100%
06/30/02	--	38,322	38,322	100%

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
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19. RETIREMENT PLANS (Cont'd)

Extra Help Employees

The County provides a retirement plan for extra help employees and part time employees working less than 20 hours a week. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS. There are currently two active plans for employees in this category. The Defined Benefit Retirement Plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. The Defined Contribution Plan replaced the previous plan and was effective for new employees March 1, 2002.

Defined Benefit Retirement Plan

Plan Description. The plan is a single-employer defined benefit retirement plan for employees performing services based on less than half time or as extra help. The normal retirement benefits for participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday. The County Board of Supervisors has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

The plan was closed to new participants as of February 28, 2002. As of June 30, 2002, the plan consists of 2,547 active plan participants, 17 terminated plan participants entitled to but not yet receiving benefits, and 5 retirees receiving benefits.

The plan's financial statements are prepared using the accrual basis of accounting. Plan participant and County contributions are recognized in the period in which contributions are due. Investments are reported at fair value as further described in Note 1.E and are fully invested in the County Pool as described in Note 4. The plan has not issued separate stand-alone financial statements.

Funding Policy. Plan participants are required to contribute between 2.5 and 7.5 percent of their annual covered compensation based upon their attained age as of January 1 of each calendar year. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, there have been no County contributions. The annual required contribution is equal to:

- Normal cost
- Minus employee contribution
- Plus 30 amortization of the unfunded actuarial accrued liability

Annual Pension Cost. GASB Statement No. 27 requires the County to have an actuarial valuation performed at least biennially to determine the plan's annual pension cost. The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is the total of (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the unfunded actuarial liability. Based on the most recent actuarial valuation, June 30, 2002, interest on the net pension obligation is immaterial.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
(Dollar Amounts in Thousands)

19. RETIREMENT PLANS (Cont'd)

Extra Help Employees (Cont'd)

Defined Benefit Retirement Plan (Cont'd)

For the fiscal year ended June 30, 2002, the County's annual required contribution was \$65. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the traditional (unprojected) unit credit actuarial cost method. The actuarial assumptions included (a) 5.5% investment return (net of administrative expenses), (b) the 1983 Group Annuity Mortality table for Males and Females, and (c) projected annual salary increases of 4% a year (used to project future payroll only). Both (a) and (c) include a 3.75% annual inflation component. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years. However, the investment return assumption was changed from 8% to 5.5% at June 30, 2002. This change will impact the 2002-03 annual pension cost.

The actuarial valuation date for year 2000 has been changed to June 30 from January 1. The change in accrued liability due to the change of valuation date is insignificant.

Orange County Defined Benefit Retirement Plan
Schedule of Funding Progress
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
01/01/98	\$ 2,058	\$ 2,178	\$ 120	94.5%	\$ 10,862	1.1%
06/30/99	\$ 2,280	\$ 2,975	\$ 695	76.6%	\$ 18,200	3.8%
06/30/00	\$ 2,666	\$ 3,750	\$ 1,084	71.1%	\$ 18,920	5.7%
06/30/01*	\$ 3,419	\$ 4,149	\$ 730	82.4%	\$ 19,676	3.7%
06/30/02	\$ 4,121	\$ 7,035	\$ 2,914	58.6%	\$ 24,192	12.0%

* June 30, 2001 Actuarial Accrued Liability based on June 30, 2000 valuation results rolled forward one year.

Schedule of Employer Contributions
(Amounts in Thousands)

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1999	\$ 3	0%	\$ 6
2000	\$ 2	0%	\$ 28
2001	\$ 73	0%	\$ 101
2002	\$ 65	0%	\$ 166

Note: The two preceding schedules include information determined as part of the actuarial valuations at the dates indicated.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS (Cont'd)
FOR THE YEAR ENDED JUNE 30, 2002
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19. RETIREMENT PLANS (Cont'd)

Extra Help Employees (Cont'd)

Defined Contribution Plan

Plan Description. On March 1, 2002 the County adopted a Defined Contribution Plan to replace the Defined Benefit Plan for extra help employees and part time employees working less than 20 hours per week. The plan is a tax-deferred retirement plan established in accordance with Internal Revenue Code 3121. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS. As of June 30, 2002 there were 282 participants in the plan.

The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The normal retirement benefits for a participant who retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return.

If a participant's employment status changes from a part-time or extra help employee to a permanent full-time employee, or a part-time employee working 20 hours or more per week, those participants may elect to transfer the balance to the County's Deferred Compensation Plan or leave the balance in the plan until they are no longer employed with the County.

Funding Policy. Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in a stable value fund offered through BenefitsCorp Equities, Inc, designed to protect principal and maximize earnings. There is no additional contribution made by the County.

Annual Pension Cost. There are no separate recordkeeping or administrative fees charged to the participants. The investment management fee charged by BenefitsCorp Equities, Inc. for the stable value fund is deducted from the interest earnings each quarter as a percentage of the interest rate credited.

20. POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County makes health care benefits available for 4,739 retired employees. These health care benefits are funded by a 1% salary contribution from current employees, contributions from the OCERS' Additional Retirement Benefit Account, and contributions from the retirees themselves. The County recognizes the cost of these benefits by reporting as expenditures in various funds periodic insurance premiums and claims, which were \$19,104 in FY 2001-02.

The County of Orange Board of Supervisors approved the establishment of the retiree medical program on August 1, 1993. Participants for County administered retiree health care must be eligible to retire and have at least ten years of County service and have reached the age of 50. Participants must also be receiving a monthly retirement allowance from the OCERS and be enrolled in a County health plan at the time of retirement.

The retiree medical grant amount for calendar year 2002 is set at \$13.53 per month for each year of County service to a maximum of 25 years. For FY 2001-02, the retiree medical program contributed \$10,883 towards retiree medical insurance costs. At the beginning of each month, the County of Orange and OCERS determine eligibility. The appropriate funds are then applied to the retirees' monthly pension benefit.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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21. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2002:

A. State of California Fiscal Outlook

On November 14, 2002, the California Legislative Analyst's Office (LAO) issued its "California's Fiscal Outlook, LAO Projections, 2002-03 Through 2007-08" report. The nonpartisan Legislative Analyst projected that California will be facing a \$21,100,000 General Fund deficit by the end of FY 2002-03, absent any corrective actions by the State's legislators.

The report blamed the looming shortfall in large part on the gap between State spending and revenue collections caused by the stock market decline and the corresponding reduction in State tax receipts. The LAO projects that general fund revenue collections in FY 2002-03 will fall \$4,100,000 short of projections and \$6,500,000 short of projections in FY 2003-04, largely because of projected declines in personal income tax receipts. It is currently not known how the State's projected deficit will ultimately impact the County.

B. Temporary General Fund Cash Transfers to Other Funds

On August 20, 2002, the Board of Supervisors authorized the Auditor-Controller, upon approval by the CEO, to make temporary transfers of cash from the County General Fund to the Airport Enterprise Fund and to the Building and Safety Fund (a separate special revenue fund). This authority was granted pursuant to statutory provisions contained in Sections 25252 and 53635.7 of the California Government Code.

Temporary cash transfers of up to a total of \$10,000 to the Airport Enterprise Fund were sought by John Wayne Airport to provide funding for extensive facility modification costs of a project that would provide for 100 percent screening of checked baggage, required by the federal Aviation Transportation Security Act (ATSA) to start by December 31, 2002. The ATSA was passed in the wake of the tragic events of September 11, 2001, and created the Transportation Security Administration (TSA). TSA is charged with ensuring security for all modes of transportation and carrying out the mandates included in ATSA. Due to TSA's ability to only pay for equipment costs, the Airport Enterprise Fund is paying the costs of infrastructure improvements for the project, which may temporarily exceed the Enterprise Fund's aeronautical cash reserves. The General Fund will temporarily transfer up to \$10,000 to the Airport Enterprise Fund, if needed to provide cash to cover the expenses of this project. The transfers will be repaid with interest out of future Airport aeronautical revenues, or out of federal funds, if federal funding is eventually provided for the infrastructure portion of the project.

Subsequent to the Board action to authorize the temporary cash transfers, John Wayne Airport accepted a grant offer from the Federal Aviation Administration on September 27, 2002, in the amount of \$10,000 for the 100 percent checked baggage screening project. This funding may reduce the necessity of cash transfers from the County General Fund. John Wayne Airport continues to pursue 100 percent funding of the project.

Temporary cash transfers of up to a total of \$8,000 from the County General Fund were authorized for the Building and Safety Fund, which is a separate special revenue fund that accounts for the revenues and costs of building permits and plan check inspections. As a result of a combination of fee reductions for building permits and plan checking, and a decreased level of permit activity, cash reserves in the Building and Safety Fund were almost depleted at the end of FY 2001-02. If necessary, temporary transfers of cash from the General Fund will be utilized to provide cash flow for the Building and Safety Fund while other corrective actions are assessed and implemented. Repayments of the transfers will be made to the General Fund with interest as revenues are received in the Building and Safety Fund and its cash reserves are restored.

COUNTY OF ORANGE
NOTES TO THE BASIC FINANCIAL STATEMENTS
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21. SUBSEQUENT EVENTS (Cont'd)

C. Audit of Handicapped & Disabled Students Claim

The State Controller's Office audited claims filed for providing mental health services to children under the Senate Bill 90 Mandated Costs Reimbursement Program for Fiscal Years 1997-98 and 1998-99, and asserted that approximately \$12,400 in costs claimed were unallowable. On October 2, 2002, the governor signed State budget trailer bill AB 2781, which provides that the percentage of reimbursement for certain treatment costs are not subject to dispute, thereby reducing the total amount of potential audit disallowances by approximately \$10,400. The County will continue to appeal the remaining \$2,000 in disallowances. The effect of this legislation on the current audit is not known.

D. Coordination Proceeding Special Title (Rule 1550 (B) - Retirement Case

The parties to the *Ventura* Litigation, described in Note 17, conferred and reached a mutually agreeable settlement. The proposed Settlement Agreement resolved all *Ventura* related issues, and authorized a payment of \$250 in attorney fees to counsel for one of the defendants/cross-complainants in the case. The court approved the settlement agreement on November 1, 2002. The final judgment will result in no new costs to the County and no additional costs to members.

E. Teeter Plan Revenue Bonds

On November 1, 2002, the Orange County Special Financing Authority retired \$700 of the 1995 Teeter Plan Revenue Bonds, leaving \$1,100 of the Series A Bonds outstanding.

F. Annual Leave Plan

On November 5, 2002, the County Board of Supervisors approved an amendment to the 2001-2004 Memoranda of Understanding (MOU) for the employees represented by the Orange County Employees Association (OCEA) and the Operations and Service Maintenance Unit, Service Employees International Union (SEIU), Chapter 787, which provides an Annual Leave Plan for these employees. Pursuant to an agreement reached during the 2001 contract negotiations with both OCEA and SEIU to develop an Annual Leave Plan, the County and the referenced representation units completed collaborative negotiations and have established a workable Annual Leave Plan for both of these organizations.

Based on existing sick leave balances, initial estimates indicate an increased compensated absences liability of approximately \$29,500, which will be paid out as these represented County employees depart from County service.

G. County of Orange v. Assessment Appeals Board No. 3

On December 12, 2002, this case was granted class-action status by the Superior Court. For further information on this case, refer to Note 17.